

# CHAPTER -I

## INTRODUCTION

### 1.1 General Background

The process of economic development in Nepal was started with the implementation of first five-year plan in 1956. Since then, the magnitude of development outlays has been increasing because of growing demand for fund. i.e. 21 Crore and 44 Lakhs in 1<sup>st</sup> five-year plan and it has been exceeded by 640.7 Arab in 10<sup>th</sup> Five Year Plan (Economic Survey, 2012). Particularly after 1970, the volume of expenditure has been increasing due to increasing deficit and it has also affected the fiscal deficit. The budgetary deficit remained Rs. 56998.5 million in fiscal year 2010/11 (Economic Survey, 2012). To fulfill deficit Nepal Government has been taking fund from both internal and external sources. Internal sources include borrowing from individuals and from banking sector including central bank. External source includes foreign loans, grants and from bilateral and multilateral agencies. Loan from World Bank IMF, IDA on the basis of fiscal reform program are increasing each year.

Classical economists were against public borrowing and favored the minimum expenditure from the government side. However, they were not against all type of public debt. They liked to approve public debt only for productive purposes and believed that there is always full employment was the wrong thinking of the classist because of the Great Depression of 1930s. But it was the result where J.M Keynes argued against a free enterprise economy, Keynes also argued in favor of an active government that invests a large amount of budget to correct market- driven shocks and fluctuations. To meet the deficit budget of government, he argued about public borrowing which need not necessarily be unproductive, inflationary and burdensome. At present it has become one of the parts of budgetary policy, to increase Income employment and output which is also known as new deal program, developed by then US president Rosevelt to solve the crisis of 1930.

Due of recent development activities in various fields-economical and political aspects. Nepal is facing a serious and growing financial resource gap problem on the one hand and increasing inflation and population growth on the other. The government cannot rely entirely upon the tax revenue; surplus of public undertaking and deficit financing as an internal financial resource. Their source of finance has to be supplemented by borrowing on large scale from the banking sector and other financial institutions, internally and externally. Therefore, the need of public debt for mobilizing additional financial resource is comparatively a modern phenomenon and has come into exercise with the development of a democratic form of government. After the advent of democracy in Nepal Government expenditure has increased rapidly. The Government expenditure figure was Rs. 26418.2 million in 1991/1992 and increased to Rs. 295363.4 million in 2010/11. But Tax/GDP is not increasing less than 10 percent. It has been remaining constant since last 10 years (Economic Survey, 2012).

The trend of public borrowing is rapidly increasing because reliance on taxation alone is not possible to raise sufficient fund for development. Therefore there is increasing need for fund from different sources. Taxation is, no doubt, the most important non-inflationary source for finance but it is quite impossible to raise adequate fund through taxation. As it has its own limitation beyond which it is bound to have an undesirable consequence. Moreover the regular expenditure was 9905.4 million in 1991/92 and exceeded to 195363.0 million in 2010/11 (Economic Survey, 2012). The Government expenditure of the government is increasing so rapidly that the very little revenue surplus is left for development purpose. Foreign aid as a source of financing development plan has been increasingly used in Nepal, since the inception of planning for development. However, such a heavy reliance of foreign aid for development is not desirable as it has adverse consequences on the economy. The total foreign aid in the 10<sup>th</sup> five year plan was Rs. 8077 crores (Economic Survey, 2012).

Hence foreign aid should be treated only as complement to internal resources not a substitute for it.

Increasing demand for fund has necessitated, Nepal to depend on both types of borrowing, internal and external. Since developing countries like Nepal always need

foreign currencies to import many capital goods required for development. These countries have to depend more on external borrowing than on the internal.

## **1.2 Statement of the Problems**

In Nepal, effective management of public financing is a challenging proposition. Government expenditure is increasing rapidly each year but government revenue is not growing in the same pace. Hence, Nepal is facing the problem of acute financial resource gap. The most appropriate method to fill the resource gap is debt financing. The burden of public debt has been one of the controversial issues in the economy of public finance. In Nepal both internal and external debts have been increasing rapidly in each and every year but production is becoming less. The external debt is increasing more rapidly than the internal debt. Increasing trend of net public debt is likely to go further. As a result, debt servicing obligations are also increasing rapidly. Today debt servicing has become a major challenge to the nation.

Similarly, more than 65 percent of the budget deficit financed through external borrowing is covering most of the F.Y. 1991 to 2011. This indicates Nepal's dependency on foreign aid. The external public debt accounts large share of the total public debt. Therefore it can be said that Nepal is heavily burdened from external debt, which has become a serious problem in the economy. If the production and productivity export is not increased at present BOP will also be in negative trend.

After the restoration of multiparty democratic system of Nepal in 1990, public debt is increasing rapidly but debt-servicing capacity is not accompanying the debt burden. This results into unfavorable balance of payments. The current situation of public debt of Nepal may face debt crisis in the future, so government should take it seriously. Since 1990, the Nepali trade policy has been headed towards open-global market. Since the membership of WTO on 23<sup>rd</sup> April 2004, the Nepali economy has got global touch in a formal way. Privatization and economic liberalization are keys to control public expenditure. The international organizations like WB and IME have forced the LDCS like Nepal to adopt the policies under structural Adjustment Programme (SAP). Now there is a policy that various facilities of soft loan provided by World Bank, IMF and IDA in minimum interest rate are being accepted by the government easily.

Ever increasing debt will create a serious problem in the economy like debt trap, colonization, internal instability etc. In fact, if public debt increases and not utilized properly there will be macro-economic imbalance which creates excessive dependency up on foreign assistance. For this purpose, the study has made an attempt to identify the following problem:

1. What is the situation, trend and structure of public debt (1991/92 to 2010/11)?
2. What is the condition of resource gap in Nepali context?
3. What is the relationship between public debt and gross domestic product in Nepal?
4. Which source is important internal or external in the context of Nepal to fulfill the resource gap

### **1.3 Objectives of the Study**

The main objective of the study is to investigate and analyze the trend and pattern, trend and structure of public debt in Nepal with following specific objectives.

- a. To analyze the trend and structure of public debt.
- b. To identify the source of meeting resource gap.
- c. To analyze the relationship in between public debt and growth domestic product.
- d. To assess the source to fulfill resource gap.
- e. To recommend the policy measure for the appropriate public debt management.

### **1.4 Significance of the Study**

The huge fiscal deficit in Nepal resulted from small resource base and huge development requirement made the government depend up-on the foreign assistance. In recent trend the donor countries do not want to give money directly rather they prefer to business activities. So the direct foreign assistance is declining and the loan component is increasing. All these factors have increased the volume of debt. Hence, the existing scenario of public debt is very discouraging.

This study will focus on existing scenario of public debt, necessity of borrowing, trend and structure of public debt and the consequences of debt in the overall performance of economy. So, this study will be beneficial for the readers who are interested in international relationship, the institution involved in financial market etc. They all can get a clear-cut idea about various aspects of public debt. It provides some information related to our budgetary system and contribution of debt on it. This study helps to get knowledge about government borrowing, sources of debt, its present situation and some recommendation of public debt in Nepal.

### **1.5 Limitations of the Study**

Due to various constraints, all aspects of public debt have not been discussed in this study. The major limitations of this study are as follows;

- a. This study covers only 20 years time period since the F.Y. 1991/92 to F.Y. 2010/11.
- b. This study is based on the secondary data.
- c. This study does not cover the effects of public debt on some macro economic variables, such as money supply, price level, inflation, employment and poverty.
- d. This study does not address the impact of public debt on socio-cultural life of the public.

### **1.6 Organization of the Study**

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

## **CHAPTER - II**

### **REVIEW OF LITERATURE**

#### **2.1 Introduction**

The financial transaction statistics of the government of Nepal shows total expenditure since 2001/02. In the F.Y. 2010/11 it was Rs. 219.66 billion of which 58.2 percent were recurrent, 33.3 percent capital and 8.6 percent repayment of principal. Similarly revenue mobilization covered about 63 to 70 percent of the total expenditure between fiscal year 2001/02 and 2010/11 (Economic Survey, 2012). It shows that the gap between revenue mobilization and total expenditure has reached 7.7 percent in the fiscal year 2010/11. Therefore the average fiscal deficit has increased by 16 percent from the fiscal year 2002/03 to 2010/11 and it is the real problem for the democratic, republic government of Nepal. Beside this Nepali economy is passing through the critical phase of low income level negative BOP, liquidity trap, various circle of poverty etc. Therefore responsibility of government is important to create infrastructure in various field: (power, roads railway and drinking water). For this regular source of government revenue are insufficient to meet the required expenditure. So government has to depend upon borrowing from internal and external sources.

To match with this problem foreign loan has been playing vital role in the Nepali economy. The net outstanding foreign loan, has reached the total of Rs. 216628.9 million in the fiscal year 2006/07 which further increased 16.84 percent reaching 253125.2 in 2010/11. In the fiscal year 2010/11 the ratio of net outstanding debt of GDP stood at 39.5 percent. On the other side domestic debt or borrowing increased by 18 percent to Rs. 120873.8 million 2008/09 from Rs. 142859.7 million in 2010/11. And it is in increasing trend (Economic Survey, 2012).

The government borrowing is not the new and keen matter for the student of economics and finance. From the very beginning of the 19<sup>th</sup> century economists have been arguing and discussing the public debt. The classical economists such as Adam

Smith, T.R. Malthus, J.B. Say, Ricard, C.F. Bastable expressed their views against the public debt, saying "Nation once begins to borrow would not resist until it reaches the point of bankrupt." A.C. Pigou in his classical work on public finance observes. "There is a general agreement that ordinary running expenses should be met out of current taxes. Government expenditure devoted to producing capital equipments the fruits of which will subsequently be sold to purchaser for fees, must be raised by loan. If this is done violent and sudden change in tax rates is avoided. The people who benefit from the service the new capital equipment renders pay for it is a portion to their use. And the fees charged are sufficient to wipe out the loan during the lifetime of the capital equipment. No additional taxation has ever to be raised on account of it". The traditional view does not fit into the conditions of a development economy. Whereas post Keynesian and the modern economist including J.M. Keynes, Harism, Hensen, Buonannan, Musgrave, Davis, Kopt and other have challenged the version of classical economist and old opposite opinion on the subject of public debt, its size and use. In Nepalese context, government started to use deficit financing from 1964. The deficit was fulfilled by printing money, issuing government securities, borrowing from internal and external sources etc. (Joshi M.R. 1982). Many development projects are also initiated with the assistance of foreign countries and agencies. On the other hand, the internal cause of increase in government expenditure and inflation growth employment income made government compelled to accept and take debt.

Opportunities for government borrowing at home are limited in most developing countries due to the low level of income and saving. This in turn resulted from the low level of investment. This justifies that capital deficiency in the developing countries is a serious bottle neck in the development. Developed countries are facing the deficiency of capital in relation of their population and natural resources. Most of the developing countries are characterized by deficiency of capital. To break vicious circle and uplift a country a large amount of initial investment is necessary. Thus underdeveloped countries should emphasize to stimulate and accelerate capital formation. In the case of Nepal internal borrowing is raising from various sources- Nepal Rastra Bank, Commercial Bank, Financial Institution, Individuals and IMF, IDA, World Bank are the major external source. Bilateral source is also increasing in this field instead of government loan increasing.

Borrowing abroad gives a country command over more goods and services than it produces currently, but it has a future real cost and transfer problem. The burden of external debt should be conceived in terms of benefit-cost question. An immediate gain in resource is to be balanced against the future real cost of debt servicing and amortization. (i.e. debt repayment) From the last four decades, public debt is sharply increasing with the increasing role of the government. In the context, the theoretical aspects underplaying the need and use of public debt have been reviewed.

## **2.2 Theoretical Review**

Public debt is a modern invention. It was not heard prior to the eighteenth century. In those days the living way was very simple and there were limited economic activities. The government budgets were very small and there was the policy of Laissez faire in economic system. But after the great depression of 1929-33, the public authorities started to take interest in the economic stability and development of their countries. So, public borrowing has become a tool for the proper development of the country. In modern time, the government activities have grown rapidly. The government has to spend a big amount on day to day activities and rapidly. The government has to spend a big amount on day to day activities and development functions. In such a situation any other sources of revenue or taxes are not sufficient to utilize and mobilize the resources and to obtain the macro economic objectives. Hence it has become an effective instrument of fiscal policy to stabilize and enhance the economic development of underdeveloped economies (Risal, 1994).

Generally, the fund or capital taken in the form of loan by the state from various sources is called public borrowing. In other words, public debt refers to loan raised by a government within the country or from outside the country. Every government, like individuals has to borrow when its expenditure exceeds its revenue. But it is not a source of revenue like taxes.

### **2.2.1 Classical View**

The classical economists had negative attitude towards public debt. As they did not plead for increasing economic role of government. Instead they said “let the money fructify in the pockets of the people”. According to them state has to perform its



limited activities-maintenance of law and order. Justice and social security. Classical economists like J.B. Say, J.S. Mill, T.R. Malthus, C.F. Bastable have given their arguments that public debt creates burden on the economy because of its unproductive nature. However, the classical theory is criticized mainly on two grounds. Firstly, every government expenditure is not always unproductive, hence public borrowing may not always be a burden up-on the economy. Secondly, the traditional view regarding the shifting of the debt burden is not correct. The real burden of public debt must be borne in the initial period of debt creation when government borrows for meeting development requirements. Here, government attracts resources from private use and put in to public project in the initial period.

Public borrowing way creates some problems to be found by future generation in the form of adverse effect on the economy but there is no shifting of the basic burden to the future generation. Because, future generation not any inherits burden or liabilities of the payment of interest and principal from present generation but they also inherit assets in the form of the right of receiving the interest and principal amount. In this situation, the interest and the principal on the payment side and principal and the interest on the receipt side belong to the same generation. Therefore there is no inter generation transfer but a transfer within the same generation.

But this view doesn't take into account the problem of the shifting of real burden arising from the sacrifice of private consumption on account of public borrowing project. This sacrifice may be from present or future consumption. The problem of shifting of the burden may be different in both situations various theories dealing with the shifting of burden are based on this ground. A.C. Pigou has given strong case against shifting of the real burden to future generation.

### **2.2.2 Keynesian View**

It was only after the great depression of the 1930's when new wave of thinking took place in the writing of J.M. Keynes. Who advocated for increasing government role in the economic activities by adopting deficit financing so that effective demand is created in the economy ensuring employment opportunities. In the 1950s, a development process in the developing countries took place significantly. The growing need of fund was realised for meeting development requirements. Capital

deficiency resulted in increasing volume of budgetary deficits. The great depression of 1930s and the Keynesian revolution paved the way for the development of the modern theory of public debt as a part of the functional finance. Those who follow Keynes are of the view that public debt is income generating and so it is not burden of the community.

J.M. Keynes suggested that deficit spending is crucial to avoid long term recession but at present Britain, Germany, France, Greece, Italy, Spain, Ireland, Portugal, Denmark, Czech Rumania are increasing retirement age and sloshing in public outlays and cut in welfare programme and increase in tax (VAT). But people are against this policy. In France various trade unions are in fight with government launching strikes with the help of students. Prof. Stieglitz argued that this plan of slashing government outlays is only a temporary; it is not last solution to reduce public debt, but above mentioned governments are reducing government spending to narrow down the public debt and decrease the deficit.

As professor S.E. Harrie maintains; "it assures elasticity in money supply and agreed that government expenditure could be productive and need not necessarily be wasteful and so case for public borrowing is not strengthened". Those who follow can take into account the income generating aspect of the public debt and reject any possibility of internal debt being burden upon the community. (Harris, 1947;45)

Harold G. Moulton considers public debt as a national asset rather than liability and says that it is essential for the prosperity of the country (Moulton 1943;15)

In the words of AP Lerner; "The internal debt may not have direct money burden in a community as a whole, since the payment of interest to meet the burden involved simply transfer the purchasing power from one group of persons to another. To extent the creditors and taxpayers are the same as there may not be any net burden at all on the community but to extent the creditor's and tax payer's belong to different income groups the change in the distribution of income among different section of the community may take place. Generally government bonds and securities holders are mostly rich people whereas the burden of taxation fall both the rich as well as poor section of the community". (Lerner, 1946:20)

In the words of Musgrave, “self liquidating project may defined narrowly as investment in public enterprise that provide a fee or sales in come sufficient to service the debt incurred in their financing or they may increase future income and the tax base. Such project permit servicing (interest and amortization) of the debt incurred in their financing without requiring an increase in the future level of tax rates”. (Musgrave: 1959)

### **2.2.3 Post Keynesian View**

Post Keynesian economists advanced their idea that government borrowing does not always deprive the private economy of resources as, for instance, in a period of widespread unemployment. It is also not accepted now that borrowing in a period of full employment must be inflationary. It depends on these circumstances if borrowing taps funds otherwise spent in consumption, it is not more inflationary then taxation. A large public debt, if internally held, poses many problems for the economy. They think that income, saving and investment are the crucial factor to achieve steady growth for developing countries. So the overall aim of borrowing is not to equalize income in different countries but to provide every country with an opportunity to achieve steady growth, on the other side people and the developed countries are enjoying high prosperity, high standard of living, high educational facilities etc. Population problem is also not to serious in such economics.

According to Gurley, J.G. and Shaw, I.S. (1995). Public debt is applied for the maintenance of balance between the expenditure and revenue for financing economic development, since developed or developing countries always face the problem of fund, which is reflected in a large extent and as ever-increasing financial resources gap in government budgetary. Therefore, the selection of appropriate method for development is very important for the success of a development plan. Various methods to be adopted mobilizing financial resources and their implication for the economy are among the leading issues in economic development. Finance aspects are as important as other aspect of economic development and their study should be received proper attention.

The Mahbub Ul Haq Human Development Center, OXFORD University (1999), in an article "The crisis of Governance", analyzed that South Asia has fast accumulated a

large stock of public debt. Some countries like Pakistan, Nepal, and Sri Lanka have already crossed safe limits: public debt to GDP ratio exceeds 60 percent in all these countries. But the use of public debt is more of a cause for concern than its size. Debt is more often used for reducing deficits than for enhancing development.

Except India, other countries of South Asia rely a great deal on external resources for financing their budget deficits. Nearly half of the region's budget deficit is financed through foreign borrowing. As a result, some countries have seen an explosive growth in their external debt. External debt (as a percentage of GDP) is 19 percent higher in Pakistan today in 1980 and the corresponding increase for Bangladesh is 7 percent.

Nearly all South Asian countries have seen their domestic debt soar in the last decade. Thanks to a captive banking sector, South Asian governments financed their public deficits rather cheaply by printing and borrowing money domestically. Domestic debt exceeds 40 percent of GDP in India, Pakistan, and Sri Lanka. India presents a striking picture with its domestic debt about five times as high as external debt. In fact, internal debt (as a percentage of GDP) has grown by more than 42 percent in India since 1980. (Mahabub Ul Haq, 1999)

This increasing claim on a limited pool of domestic resources by the government does not come cheap. It shrinks the investible resources available to the private sector and makes them much more expensive. In 1997, domestic borrowing by the government of Pakistan constituted about half of total credit expansion.

This significant rise in domestic debt, coupled with an increase in the external debt, has tremendously increased the debt servicing obligation. Interest payments have become the single largest expenditure head in central government budgets in India and Pakistan-often exceeding even the defense expenditures. Servicing past debt is becoming burdensome, since interest payments absorb an increasing proportion of tax revenues and export earnings every year. Debt servicing consumes 47 and 60 percent of revenue receipts in India and Pakistan respectively. Similarly, India, Pakistan, and Nepal utilized about two times more export earnings on servicing debt in 1996 than that in 1980.

The situation in Pakistan is particularly worrisome. Since the early 1990s, debt servicing has been the fastest growing item in government expenditure-growing at 21 percent per annum. All other items have either declined or remained constant in real terms. The unsustainable nature of Pakistan's debt can be realized from the fact that debt servicing has grown four times as fast as GDP during the 1990s. Even in a less indebted country like Maldives, public expenditures on debt servicing have expenditures by 17 percent in the last two year alone.

Much of the rise in these interest payments comes from an increasing reliance on costly short-term debt. This is truer of both Indian and Pakistan, which, unlike other South Asian countries, have increased their reliance on short-term debt between the period 1980-96. In Pakistan, short-term debt has risen by over 100 percent over the last five years. (Ul Haq Mahbub1999:78)

IMF working paper (2002), entitled “the Choice between External and Domestic Debt in Financing Budget Deficits: the Case Study of Central West African countries” has developed a simple analytical framework and showed that highly concessional external debt is usually a superior choice to domestic debt in terms of financial costs and risks, even in the face of a probable devaluation. The paper has stressed the importance of the availability and terms of financing, and of overall long term debt sustainability. It reviews the principles and practical considerations involved in the choice between foreign and domestic financing of fiscal deficits. This paper explains factors such as the country's size. The level of government revenue and the track record in servicing debt play a major role in determining possible government financing options. In practice under the circumstances prevailing in most sub-saharan African countries, debt management strategies usually need to focus on short term cash management. Given their low creditworthiness, sub-saharan African countries will have difficulty, in the short run, to diversify budget deficit financing sources. This paper states the financing systems of sub-saharan African countries are generally underdeveloped and lacking in diversity. Some of countries have a fairly extensive co-operative credit sector, but none so far have active markets in financial instrument although regional institutions are introducing securities markets, these initiatives are till at an early stage. So, domestic budget financing in sub-sharan African still mainly

consists of bank loan. Europe's spending cut job long of policy, which against the J.M. Keynes proposed increased public spending in difficult times.

### **2.3 Report Review**

In the review of literature on public debt in the context of Nepal, it is beneficial to attach the review of the articles, the dissertation, and that of some recent texts and the magazines. They are as follows:

**Mahesh Raj Joshi** (1980) in his M.A. dissertation entitled. "Structure of Public Debt in Nepal," has analyzed the structure of public debt and the financial development. He has concluded that internal debt can play a vital role to develop money market, capital market and external debt is mainly for rapid economic development and to fill up the resource gap in the economy (Joshi, 1982).

**Kishor Kumar Ghurugharana** (1996), in his article entitled. "The Role of Foreign Aid in Economic Development and Poverty Alleviation", has analysed the burden of public debt as debt servicing cost on Nepal and has come to the view that long-term upward trend of increasing debt burden inflict greater burden. He has finally said that though the loan component of foreign aid in Nepal is softer than other countries like India and China yet the very low rate of return and rapidly increasing volume of debt is slowly bringing Nepali economy towards crisis of debt trap (Ghurugharana, 1996)

**Urmila Adhikari** (1996), in her article entitled, "Foreign Debt Servicing: A Case Study" has analyzed the foreign debt servicing problem in Nepal. She has found out substantial increase in foreign debt servicing between the periods of 1974/75 to 1993/94. She has suggested effective implementation of liberalization policy in all areas of investment. this can bring a great relief to the country creating can reduce burden of debt servicing substantially in the year to come. (Adhikari; 1996)

**Nar Bahadur Thapa** (1997), in his article, "Adhoc Treasury Bill VS Ways and Means Advanced Debate on their Implication for Monetary Policy" has said, "government borrowing from central bank is not considered good for it amounts to printing money". (Thapa, 1997)

**Hari Krishna Koirala** (1997) in his M.A. dissertation entitled, "Public Debt in Nepal" has analyzed the trend and structure of public debt in Nepal. He has expressed his view that excessive dependency on foreign loan for development expenditure is persistent because of poor mobilization of internal resources. Macro economic imbalances such as every widening trade deficit, investment saving gap and large amount of fiscal deficit have been the main issues before N.G. there are the factor contributing to the foreign aid dependency syndrome. Excessive flow of foreign loan to bridge up three gaps (fiscal deficit, trade deficit and investment saving gaps). Therefore the substantial increase in foreign debt has increased its burden of debt servicing but debt-servicing capacity of the economy is not increasing satisfactorily. He has found out that the average annual growth rate of GDP, export earning is considerably as compared with the rate of magnitude of debt and debt servicing requirements which clearly shows that the debt servicing capacity of Nepal is very poor which is also responsible for increasing debt obligations.

He has further said that though this problem of debt servicing is world wide yet Nepal should have to take urgent action in creating servicing capacity. (Koirala, 1997)

**Guna Nidhi Sharma** (1998), in his article entitled, "The Growing Fiscal Imbalance in Nepal, Are We Really Falling into the Debt Trap?" has analyzed that the ever increasing debt in Nepal and its servicing has really created a situation which leads the country towards debt trap because of following reasons:

- ) Large amount of loan is allocated for meeting development expenditure.
- ) A good amount of borrowed fund is for debt Servicing.
- ) Volume of borrowed amount exceeds the maximum legal limit of borrowing. (Sharma, 1998).

**Youb Raj Khatiwada** (1998) in his article entitled, "Public Debt Management and Macro Economic Stability" has observed basically dealt with monetary implications of the public debt. He has found out that public debt has:

- ) Exerted excess monetary expansion, which has indirectly resulted in high rate of inflation and deterioration of current account situation.

- ) He has pressure of debt servicing to the government resulting in higher budgetary deficit with further contributes to monetary expansion having subsequent repercussion on the internal as well as external sector stability.
- ) It has crowded out resources available for private sector investment.
- ) Exerted upward pressure on the market rate of the interest.

He has further analyzed the situation more alarming as foreign loan of the long term nature is maturing at faster rate and exchange rate of the Nepalese rupee is depreciating very fast multiplying the debt obligation as well as the debt serving requirement. Source of foreign grant is drying up which is propelling accumulation of foreign debt with larger development spending of the government through foreign aid; interest rate or domestic borrowing is very high. Making domestic debt servicing, taxing affair, most of the domestic debt is of short. Term nature but there is less likelihood of an improved budgetary situation of the government in the near future. (Khatiwada, 1998)

**Keshor Bhadur Kunwar** (2000), in his M.A. thesis entitled, "Government Borrowing: System and practice in Nepal" observed government borrowing is the financial obligation of the state for which the government borrowing is the financial obligation of the state of which government is committed to pay its interest and principle with stipulated time period. He further added borrowing abroad gives a country command over more goods and services than it is currently provided but entails a further real cost and transfer problems whether such borrowing should be undertaken is essentially a benefit or cost question that can be analyzed by reference to the value of debt financing expenditures and the countries debt service capacity. In practice however much borrowing is unplanned and is promoted by attractive offers of credit or by emergencies, miscalculation or weak fiscal policies. (Kunwar, 2000)

**Laxmi Bilas Koirala** (2002), in his article entitled, "Effective Public Debt Management in Nepales Perspective", has viewed that if debt is not handled properly, the generation may be tired paying back ancestral earning. In this perspective, some policies were prescribed to mitigate the pain and adverse effect of ever increasing debt in Nepal.



- J Loan assistance should be utilized selectively after careful scrutiny of the purpose, content and benefits of such project and programmes in order to reduce the burden of external debt and their by accelerates growth and meeting socio-economic objectives.
- J The medium term expenditure framework (MTEF) should be implemented effectively.
- J Financial resource mobilization policy should be implemented to increase the share of tax by reducing the dependency of foreign debt.
- J Privatization of government enterprises should be accelerated and the revenue received from privatization should be utilized as the debt-equity-swap strategy for debt relief. (Koirala, 2002:211)

**Nirajan Basnet** (2003), in his dissertation of M.A. entitled "A Study on Public Debt in Nepal", has observed due to the increasing trend of resources problem external as well as internal borrowing has been increasing. Nepal's budgetary deficit is growing rapidly which increased dependency on foreign assistance, the share of external borrowing is 63.24 percent of the total debt and rest by internal debt in 2000/01. "The trend of continuously increased borrowing and debt servicing obligation is not good economic indicator for developing country like Nepal. Obviously, there is no any alternative source for financing budgetary deficit so that government is unable to reduce size of debt." He further emphasized that effective mechanism should be implemented to complete the development program funded by public debt on time, so that interest burden should be minimized. He provided some suggestion and recommended to get rid of the heavy burden of debt, tax system should be improved, and the borrowing should be effectively used on the productive purposes. Effective supervision and legal system must be set to control increasing corruption. The saving and investment rate should be increased perusing appropriate policy measure. (Basnet, 2003)

**Krishna Gyawali et al** (2004) in an article entitled "Public Debt Management in Nepal", analysed that public borrowing is increasing in alarming rate. It is high time that same more concerned efforts are taken and institution should be developed for

managing the debt, which can extend to private sector borrowing from abroad. The tenth plan rightly indicated that the deficits should be limited to less than five percent of GDP and the borrowing should be limited by a certain limit put upon debt servicing debt ratio to regular expenditure. There is a need for some legislation or regulate the fiscal management including public debt. (Gyawali at all, 2004)

**Alamgir at all** (2005), the ADB working paper “Nepal; Public Debt sustainability Analysis,” suggested that Nepal’s public debt position is projected to remain manageable but vigilance will be prudent on account of questions related to fiscal sustainability and currency composition of exports and foreign reserves. This study also reveals that the agriculture sector including irrigation and rural development dominated the foreign loan portfolio of the government. (Alamir at all, 2005).

**Ram Gokul Thapa** (2005), in his article "Domestic Debt Management" observed that the size of fiscal deficit that affects the size of internal borrowing in Nepal is increasing every year. For the development of the government securities market, an efficient management system should be established. To manage the government borrowing efficiently, development of an efficient government security market is a must. The borrowing should not be for the payment of interest and principal amount. It should be invested in the productive sector sufficient for repayment. He further indicates that the objective of borrowing should not be for making easy money for the government. If the return is less than the borrowing costs, this will result in the gradual deterioration in the paying capacity of government and finally the public will have less confidence on government. The borrowing instruments can be well as for government financing. So, there should be a cordial coordination between fiscal and monetary policy maker and debt manager. (Thapa, 2005)

Pitamber Chettri in his article entitled. "The Political Economy of Nepal's Public Debt" has analyzed that in Nepal, government spending have been exceeding government revenues every year. To fulfill the deficits, government borrows money from both of the sources external and internal. As a result the accumulated debt now exceeds Rs. 130 billions which accounts for more than Rs. 6000 of debt for every Nepalese citizen. This debt per capita has been doubled within five years as it was

nearly Rs. 3000 in 1991. Further more the absolute debt outstanding has more than doubled within the same period.

According to Pitamber Chettri, Resource gap can be reduced either by reducing the government expenditure or by increasing the government revenue or some combination of both. Nepalese budget, apparently, has been dominated by development expenditure and from 1990 on wards it is dominated by few but popular and costly entitlements like social services, public infrastructures, and power generation whose growth is tied to demographic and economic factors. Thus, from the perspective of resource gap reduction, the structure of the current expenditure poses terrific difficulties.

He has further analyzed, and come to the conclusion that in order to reduce the resource gap, the feasible alternative would be the tax finance. But in Nepal the tax-GDP ratio has never exceeded 10 percent and even confined below. It has been reflecting ineffectiveness of economic policies as well as political commitments; some of them are:

- ) Domination of informal economic activities which are very difficult, it not impossible, to tax.
- ) Prevalence of mass poverty which reduces the size of potential tax payers.
- ) Strong obstacles to tax agricultural incomes within political and economic consideration.
- ) Ineffective tax-laws/ administration numerous loopholes and hence wide-spread corruption.

Thus, high demands for public development expenditure coupled with economic and political obstruction to raise tax-revenue have compelled Nepal's government to seek foreign as well as domestic loans

Various issues of economic survey and Nepal Rastra Bank Economic Bulletin Observed National Public Debt and its share in GDP. The ratio of public debt to GDP is an important indicator of the manageability of public debt in an economy. The relative magnitudes of the public debt of the GDP should be taken into consideration

for assessing the burden of growing public indebtedness in an economy. Nepal has to borrow huge amount of loan from external as well as internal sources for meeting deficit budget. Burden of out standing debt is increasing because of the tax revenue, and non-tax revenue is not increasing as its expectation and unutilized of public debt and rampant corruption. Here table 2.1. shows the burden of debt through the method of measure of burden of debt as the ratio of public debt to GDP.

**Kunja Raj Thapa** (2010) in his article, 'Forth Coming Budget', has analyzed. The reality behind the deficit condition is the budge. In the case of Nepal, about the forth coming budget: A vision has mentioned that the three year in interim plan has estimated an average, fiscal deficit/GDP ratio of 4.7 percent (foreign loan 2.5 percent and domestic loans 2.2 percent). In the fiscal year 2009/10 fiscal deficit/ GDP ratio has estimated 4.3 percent foreign loan 2.8 percent and internal loan 1.8 percent. In this regard keeping inflationary trend, government borrowing should not exceed 50 billion for the FY year 2010/11. (Thapa, 2010)

Nepal is facing the problem of financing ever-increasing resource gap due to mismatch between the annual growth rate of the government expenditure and its revenue. The widening resource gap in recent years has cumulative effect of the deficiencies in the investment areas and continuous absence of government's fiscal norms.

In Nepal, external borrowing is increasing more rapidly than internal borrowing. The increasing trend of public borrowing, debt-servicing obligations are also increasing rapidly. But debt-servicing capacity has not been increasing with the same pace.

Internal public debt has played a significant role in the financial resource for development expenditure as well as in the growth of money and capital market. It also facilitates the effective implementation of monetary policy. The domestic resources are not sufficient to meet the rapid development need of the Nepalese economy. Therefore, external assistance plays obvious functions in the development force for financial resources and helps to solve the resource gap in the country's budgetary expenditure.

To meet the growing needs of financial resources for financing development expenditure, dependency on foreign assistance has been increasing due to poor and insufficient domestic resources mobilization. Thus it is necessary to bridge the fiscal deficit and improve most essential capital goods for development projects.

Burden of public debt and debt servicing has been increasing continuously. Public debt, in fact is the accumulation of net borrowing of different years. In the context of the Nepali economy, a question may arise whether the country's revenue and foreign exchange availability can sustain or not. If the country's sources cannot meet external debt service payments that will need to borrow external loans for debt servicing.

## **CHAPTER - III**

### **RESEARCH METHODOLOGY**

#### **3.1 Research Design**

This study of 'trend and structure of public debt in Nepal' is made by taking various observations in the concerned agency. Various comparisons have been done in the study to know the actual burden of the debt. This study is basically based on certain tools for analysis, such as percentage distribution, average annual growth rate and average mean etc.

#### **3.2 Selection of Study Period**

The study of the trends and structure of public debt in Nepal is selected 20 years data from 1991/92 to 2010/11. It analyzes the outstanding debt trends which are essential to observe the burden of debt to the citizens.

#### **3.3 Nature and Source of Data**

This study considers descriptive in nature and totally depends upon the secondary data which has been published in books, magazines, reports and journals etc. most of the data are taken from different sources such as:

- a. Publications of Ministry of Finance.
- b. Publications of Nepal Rastra Bank.
- c. Publications of Central Bureau of Statistics.
- d. Publications of Nation Planning Commission.
- e. Publications of International Monetary Fund.
- f. Publications of Nepal Human Development Report.
- g. Publications of World Development Report.
- h. Publications of World Bank.

### **3.4 Data Collection and Processing**

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

This study is designed to examine the trend and structure of public debt through quantitative analysis, based on the secondary data and information.

### **3.5 Tabulation of Data**

In this study, data have been presented in tabular form and the required calculations have been made under different headings. Resource gap rate of grants and borrowing percentage of GDP, export-earning ratio have been computed in the study.

### **3.6 Method of Data Analysis**

The data collected from various sources is processed according to the need of the chapter. The available data from various documents are collected, classified and tabulated according to meet the need of the chapter. Simple statistical tools like ratio, percentage, average annual growth rate and chart etc. are used for analyzing the data.

This study was based on certain statistical tool for analysis, such as percentage distribution, annual average growth rate etc. Similarly the ratio to assess trend of debt and debt servicing have been estimated are:

- i. Resource gap of revenue and expenditures.
- ii. Ratio of public debt to GDPS.
- iii. Ratio of grants and government borrowings.
- iv. Ratio of internal and external debt servicing to total debt servicing.
- v. Growth rate of outstanding public debts.
- vi. Ratio of external debt servicing and export earning ratios.

## **CHAPTER IV**

### **PRESENTATION AND DATA ANALYSIS**

#### **4.1 Introduction**

Public debt is interrelated with the basic government fiscal flows of taxation and expenditure. If the volume of government expenditure exceeds the volume of tax revenue and other non-tax revenues then a deficit budget provides the fundamental precondition for debt creation. Having once been created debt requires interest payment to maintain the debt and refinancing operations of the debt is to beyond the maturities of existing securities.

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

An underdeveloped economy is an economy in which the available stock of capital goods is not sufficient to employ the available labor force. Underdeveloped country is one, which has the potential for development. But underdeveloped country has low rate of saving, investment, income and low living standard due to the low per capita income and poverty, dualistic economy, unutilized natural resources, lower health and education condition of the people, deficiency of capital or a various circle problem etc. Resources, gap is burning problem of the underdeveloped economy due to the deficiency of capital so that public debt is only one solution to fill the lack of capital deficiency. Increase in tax rate can be effective solving in the problem of resource



deficit of the government but it is not easy in LDCS because of poor taxpaying capacity and inefficient tax administration.

There are two major sources of public borrowing: External and internal. The main sources of external borrowing are: IMF, World Bank ADB, IDA etc. These institutions provide loan to the member countries for a short-term for covering the temporary balance of payment difficulties and for a long-term for the development projects (Lekhi, 1990:234-235) bilateral assistance in decreasing.

Internal domestic resources like taxation and borrowing have their own constraints and under such circumstances deficit finance may create inflation. If production does not match with expenditure foreign loan can act as an important instrument for raising additional finance within a short period of time. This assistance can help in achieving the objective of developing economy such as economic stability and growth; but resources must be diverted towards productive sector. Consumption is another part where funds are misutilized by underdeveloped countries.

There are mainly four reasons for raising the government borrowing.

1. To recover the deficit budget.
2. To tackle the emergency period of crisis.
3. To maintain the economic and monetary stability.
4. To accelerate the pace of economic development.

#### **4.2 Historical Background of the Public Debt in Nepal**

The idea of public debt was originated in Great Britain in 17th century. Where a group of city merchants provided grants and loans to the government. In return they received the privilege of a Royal Charter to fund the Bank of England. Public debt developed simultaneously with the needs of the states development. During and after the World War I and II, the government borrowed large amounts of loans to meet their expenditures (Joshi, 1982).

The government debt statistics indicated that Nepal was debt free nation till 1950s. However, the foreign and domestic borrowing had been an alternative means of debt financing in Nepal after the initiation of planned economic development.

Some historical events suggested that, public debt was not altogether a new practice in Nepal. In the past king/prime ministers of different era used to take resources of public debt. King Prithivi Nararyan Shah had borrowed from public for financing the war in 1760 AD. Rana Bahadur Shah borrowed a large amount of money (Rs. 6 million) from Indian merchants to meet internal expenses. Cash levy was imposed on country wide basis in 1804-1906 A.D. to finance the repayment of debt incurred by the king Rana Bahadur Shah. The Rana Prime Minister Chandra Shamsher had also borrowed money from Pashupatinath temple to restle the emancipated slaves around 1925 A.D.

After the democracy, first five years plan was introduced in 1956 A.D. In this plan period, most of the expenditure was incurred with the foreign grants. During that plan period, some deficit amount of Rs. 27.8 million was from surplus balanced account and loan from Nepal Rastra Bank (NRB 1996:19)

With the enforcement of public debt act 1968, domestic public debt in the form of Treasury Bills, Development Bonds and National Saving Certificates were issued in 1962; 1963/64 and 1968 respectively. These bonds and bills were regular in nature. Some of them were issued as deficit financing instruments while others were issued with a view to deepen the money market. Besides, there were many other bonds such as: special bonds, land compensation bond (1968), interest prize bond (1991) and various special bonds. (Gyawali and Bajracharya, 2004).

The recent recorded history of foreign aid began in 1951 with its aid received from the USA under the point four programme of President Harry Turman. It was followed by India in the same year, by China in 1956 and then in USSR in 1963. It was started by the International Development Associations Providing the loan for the purpose of developing telecommunication facilities in the country and then by the ADB. The quantum of foreign assistance accelerated further since the formulation of Nepal Aid Group in 1976.

Since 1963/64 Nepal has started borrowing from external sources. Since then Nepal continued to borrow from external sources to bridge financial resource gap on the budgetary position and then the amount of external borrowing continued to increase each and every year. The main sources of external borrowing in Nepal were the

governments of developed countries, international agencies and commercial banks, mainly the International Monetary Fund (IME), The World Bank (WB), and Asian Development Bank (ADB).

### **4.3 Resource Gap in Nepali Economy**

Resource gap in Nepali economy has always been a common phenomenon since the starting of the systematic budgeting system in Nepal. Management of internal resource mobilization is the main obstacle of development program in Nepal. And growth rate of the total expenditure and its revenue generation is not increasing at the same rate. Government of tax and custom administration office should be strict to collect tax as stated on budget speech every year. For this government should be transparent, fair and efficient then only rampant corruption can be reduced and gap between revenue and expenditure can be decreased. The annual growth rate of the government expenditure has outpaced its revenue collection resulting financial resource gap in the budget of the government. In the past few years the government used to finance such gap with grants. However, since the fiscal year 1964/65, the government has started to borrow internally as well as externally to fill up the gap. The following table shows the different scenarios of financial resource gap in Nepali context.

**Table 4.1: Different Scenarios of Resource Gap**

Rs in million

Fiscal Year	Government Revenue (a)	Annual growth rate GR	Government Expenditure (b)	Annual Growth Rate of GE	Scenario (I) Fiscal deficit (b-a)	Annual Growth of FD	Foreign grant (c)	Annual growth of FG	Scenario (II) budget deficit (I-C)	Annual Growth of BD
1991-1996	20148.1	10.0	35303.1	15.2	15155.0	10.8	3318.6	45.2	11836.4	6.3
1997-2001	38470.0	11.9	62505.7	11.5	24035.7	11.2	5638.5	8.9	18397.2	12.8
2002-2006	62282.2	8.2	93394.1	6.9	3111.9	5.2	11505.5	18.34	19606.4	2.0
2007-2011	141951.3	22.8	200810.0	21.2	58858.7	23.8	29271.0	24.8	29587.7	29.2
Average Growth Rate		15.7		13.7		12.8		24.3		12.7

Source: Various Issues of Economic Survey; Ministry of Finance (MOF), Government of Nepal (GON)

Note : All the figures shown in tables are averages of five years.

The table 4.1 first scenario shows resource gap which is difference between revenue and expenditure of the government. The amount of total expenditure was Rs. 35303.1 million in FY 1991-96 has gone up to Rs. 200810.0 million in FY 2007-11, whereas total revenue has increased from Rs. 20148.1 million in F.Y. 1991-96 to 141951.3 million in F.Y. 2007-11. This shows the public expenditure has dominated to government revenue.

The growth rate of total government expenditure during the period under the review has been 13.72 percent where as the growth rate of total revenue has 15.76 percent. It shows that the growth rate of revenue is greater than expenditure but in absolute terms the table shows the horrible increment of fiscal deficit that was increased from Rs. 15155.0 million in 1991-96 to Rs. 58858.7 million in 2007-11 and average growth rate in 12.80 percent.

The second scenario shows budget deficit by including grants is the most potential sources of foreign currency, which is solid instrument for government to import the capital goods and to pay the interest and principle of external debt. Foreign grants is not increasing in the desirable pace as it predicts, where it was Rs. 3318.6 million in 1991-96 to Rs. 29271.0 million in 2007-11. Budget deficit was Rs. 11836.4 million in 1991-96 and Rs. 29587.7 million in 2007-11. The average growth rate of budget deficit is 11.28 percent. It is happened due to the fluctuation of foreign grants.

**Table 4.2: Resource gap as Percentage of GDP**

Rs. in million

<b>Fiscal Year</b>	<b>Nominal GDP at Current Price</b>	<b>Fiscal deficit</b>	<b>Fiscal deficit as percentage of GDP</b>	<b>Budget deficit</b>	<b>Budget deficit as a percentage of GDP</b>
1991-1996	190248.6	15155.1	7.9	12120.5	6.4
1997-2001	329937.8	24035.7	7.3	18397.5	5.6
2002-2006	477024.8	31111.9	6.5	19606.4	4.1
2007-2011	637778.0	528229.5	6.3	36148.7	3.9
Average Growth Rate			7.0		5.0

Source: Various issues of Budget Speeches and Economic Survey, MOF/GON

Note : All the figures shown in tables are averages of five years.

Table. 4.2 reveals that the fiscal deficit as percent of GDP and budget deficit are percent of GDP (GDP at current price, based on the 1991/92 price).

To analyze the fiscal deficit as percent of GDP is more important as the GDP is the main indicator of the economy, which includes different component of the economy, and shows their performance. In this context, fiscal deficit as is gradually increasing but percent of GDP has decreased from 7.9 percent in 1991-96 to 6.3 percent in 2007-11. And average growth rate is of fiscal deficit is 7.00 percent.

The budget deficit as percent of GDP, which has included grants, has also decreased from 6.4 percent in 1991-96 to 3.9 percent in 2007-11. The inclusion of grants in government's revenue may not be appropriate because the amount of grants depends upon political consideration of friendly countries, which may have been fluctuating character. Because it is determined by the various factor. Even then the amount of grant is included here, as it doesn't require repayment and therefore, it may be taken as good as revenue.

#### 4.4 Deficit Financing

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

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

**Table 4.3: Internal and External Debt as a Percentage of Fiscal Deficit**

Rs. in million

<b>Fiscal Year</b>	<b>Budget Deficit (BD)</b>	<b>Total debt (TD)</b>	<b>Internal Debt (ID)</b>	<b>External Debt (ED)</b>	<b>ID as a Percentage of BD</b>	<b>ED as a Percentage of BD</b>
1991-1996	12120.5	9859.3	1923.8	7935.5	16.4	67.4
1997-2001	18397.2	15883.34	4722.0	11161.3	25.3	64.2
2002-2006	19606.4	16122.8	8651.9	7470.9	44.4	40.8
2007-2011	36148.7	30916.11	9325.4	11590.7	53.3	33.0
Average Growth Rate					34.8	51.3

Source: Various Issues of Budget Speeches and Economic Survey, MOF/GON

Note : All the figures shown in tables are averages of five years.

Table 4.3 shows the increasing trend of public debt from both internal and external sources, which was Rs. 9859.3 million in 1991-96, and had increased, to Rs. 30916.1 million in 2007-11. From above table, external debt is increasing rapidly then internal debt.

Internal debt Rs. 1923.8 million in F.Y. 1991-96 and has gone up to Rs. 19325.4 million in F.Y. 2007-11, whereas external debt was Rs. 7935.5 million in 1991-96 which has gone up to Rs. 11590.7 million in 2007-11. This shows the tremendous increasing trend.

The table also shows the percentage share of internal and external debt to budget deficit. Contribution of internal and external debt was 16.4 and 67.4 percent in F.Y. 1991-96 respectively, whereas share of internal and external debt is 53.3 percent and 33.0 percent in F.Y. 2007-11, which shows the fluctuating trend of external debt in different years and increasing trend in internal debt.

The table shows government growing reliance on external loan for meeting the ever-increasing budget deficit. It is in decreasing trend and that of internal debt is in increasing trend.

**Table 4.4 : Indicators of Fiscal Deficit**

(Annual Percentage Change)

<b>Fiscal Year</b>	<b>Gross Fiscal Deficit Before Foreign Grants</b>	<b>Gross Fiscal Deficit After Foreign Grants</b>	<b>Primary Deficit</b>	<b>Revenue Deficit</b>
1991-1996	7.7	5.3	1.7	31.4
1997-2001	10.6	11.7	14.2	-66.9
2002-2006	2.0	2.6	3.8	11.6
2007-2011	24.1	23.4	29.9	-171.3

Source: Nepal Rastra Bank Report (2011)

Note : All the figures shown in tables are averages of five years.



The above table shows the indicators of fiscal deficit between gross fiscal deficit before foreign grants and gross fiscal deficit after foreign grants. In the review period (1991-96 to 2007-11) the fiscal deficits are fluctuating. In F.Y. 1991-96 gross fiscal deficit before foreign grants, 7.7 percent and in F.Y. 2007-11 it has increase 24.1 percent. But gross fiscal deficit after foreign grants, primary deficit, and revenue deficit have decreased from 5.3 percent, 1.7 percent and 23.4 percent to 29.9 percent, 31.4 percent and -171.3 percent respectively under the review period.

**Table 4.5: Recurrent Expenditure on Social Services**

**(Percent of GDP)**

<b>Fiscal Year</b>	<b>Education</b>	<b>Health</b>	<b>Drinking Water</b>	<b>Local Development</b>	<b>Other Social Service</b>	<b>Total</b>
1991-1996	0.3	0.3	0.0	0.0	0.1	0.7
1997-2001	1.8	0.3	0.0	0.0	0.1	2.2
2002-2006	2.3	05	0.06	0.2	0.2	5.26
2007-2011	2.7	0.8	0.1	0.3	0.2	4.1

Source: Nepal Rastra Bank Report (2011)

Note : All the figures shown in tables are averages of five years.

Table 4.5 shows the government recurrent expenditure on social services. The percentage share of education, health, drinking water, local development and other social services is 0.3 percent, 0.3 percent, 0.0 percent, 0.0 percent, and 0.1 percent respectively in the F.Y. 1991-96. Which has increased by 2.7 percent, 0.8 percent, 0.1 percent, 0.3 percent, 0.2 percent respectively in the F.Y. 2007-11. The total expenditure on social services has also increased from 0.7 percent to 4.1 percent.

#### **4.5 Growth Trend of Government Borrowing**

The reliance on taxation is not possible in view of the large financial amount required for growing government expenditure and therefore, there is increasing need for supplementing it by borrowing internally and externally. Nepal is facing large and growing financial resource gap in the government budgetary system. In this context,

the government borrowing both external and internal needs to supplements this resource gap. This trend is shown in the table 4.6.

**Table 4.6. Growth Trends of Government Borrowing in Nepal**

Rs. in million

<b>Fiscal Year</b>	<b>Nominal GDP at Current Price</b>	<b>Total debt (TD)</b>	<b>External Debt (ED)</b>	<b>Internal Debt (ID)</b>	<b>TD as a % of GDP</b>	<b>ED as a % of GDP</b>	<b>ID as a % of GDP</b>
1991-1996	190248.6	9859.3	7935.5	1923.8	5.3	4.2	1.0
1997-2001	329937.8	15883.3	11161.3	4722.0	4.8	3.4	1.4
2002-2006	477026.6	16122.8	7470.9	8651.9	3.4	1.6	1.8
2007-2011	637778.0	30916.1	11590.7	19325.4	3.4	1.3	2.1
Average Growth Rate					4.2	2.6	1.5

Source: Various Issues of Budget Speeches and Economic Survey, MOF/GON

Note : All the figures shown in tables are averages of five years.

The table 4.6 shows the government borrowing and annual growth rate between the periods 199-96 to 2007-11. As table shows that the under the review period total government borrowing has increased Rs. 9859.3 million to Rs. 30916.1 million, which is more than 3.1 folds. Similarly external borrowing also increased Rs. 7935.5 million to Rs. 11590.7 million under the period of study, which is about 1.5 times fold. And average annual growth rate of internal debt is increasing trend from Rs. 1923.8 million to Rs. 19325.4 million. Thus these trends indicate clearly shows that the government borrowing is increasing in both absolute relative terms.

**Fig. 1: Growth Trends of Government Borrowing in Nepal**

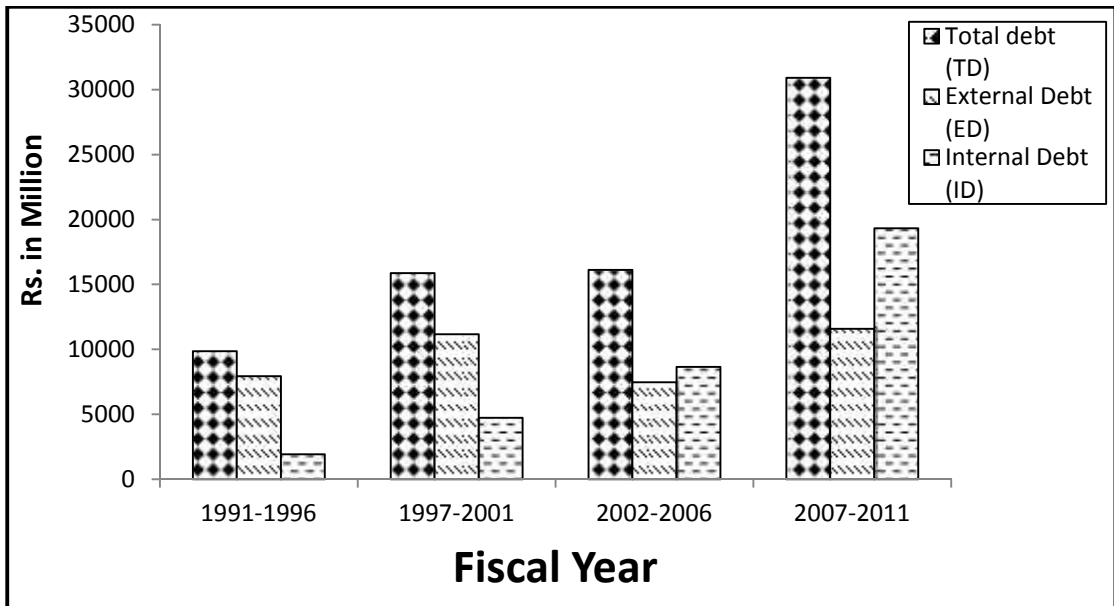


Figure 4.1 shows the total debt, external debt and internal debt. The figure shows that the government borrowing is increasing in both absolute and relative terms.

#### **4.6 Outstanding Public Debt in Nepal**

The government has to borrow large amounts of loan from both internal and external sources to fill up the revenue expenditure gap. Outstanding total debt consists both internal and external debts after deducting repayment of principal and interest. The volume of outstanding debt is growing over the time simultaneously with revenue deficit. The trend of increasing volume in public debt is shown in table 4.7.

**Table 4.7: Outstanding Public Debt in Nepal****Rs. in million**

<b>Fiscal Year</b>	<b>Nominal GDP at Current Price</b>	<b>Total Outstanding debt (TOD)</b>	<b>External Outstanding Debt (EOD)</b>	<b>Internal Outstanding Debt (IOD)</b>	<b>TOD as a % of GDP</b>	<b>EOD as a % of GDP</b>	<b>IOD as a % of GDP</b>
1991-1996	190248.6	129395.6	100271.4	29124.2	67.9	52.5	15.4
1997-2001	329937.8	218444.9	170771.3	47673.6	66.1	51.8	14.3
2002-2006	477026.6	31492.0	226157.1	85334.9	65.8	47.9	17.9
2007-2011	63778.0	382272.5	250575.7	131696.8	44.4	29.4	14.9
Average Growth Rate					61.0	45.4	15.6

Source: Various Issues of Budget Speeches and Economic Survey

Note : All the figures shown in tables are averages of five years.

The table 4.7 seems as an elaboration of debt burden of Nepal in which the total outstanding public debt of GON has increased from Rs. 129395.6 million in 1991-96 to Rs. 382272.5 million in 2007-11. The table shows that outstanding external loan has increased from Rs. 100271.4 million in F.Y. 1991-96 to Rs. 250575.7 million in F.Y. 2007-11 under the review period. The table shows that outstanding internal debt has increased Rs. 29124.2 million in F.Y. 1991-96 to Rs. 131696.0 million in F.Y. 2007-11. This shows the trend of increasing outstanding of external debt is higher than internal.

The average annual shares of total outstanding debt, external outstanding and internal outstanding debt to GDP are 61.4, 45.4 and 15.6 percent respectively under the period of study. This clearly indicates that the increasing reliance on the external borrowing. One of the factors responsible for rapid increase in the external debt is depreciation of Nepalese currencies each year. Other attributing factors are the growing needs of foreign currencies to bridge the current account capital deficit and capital deficiency in the economy.

**Fig. 4.2: Outstanding Public Debt in Nepal**

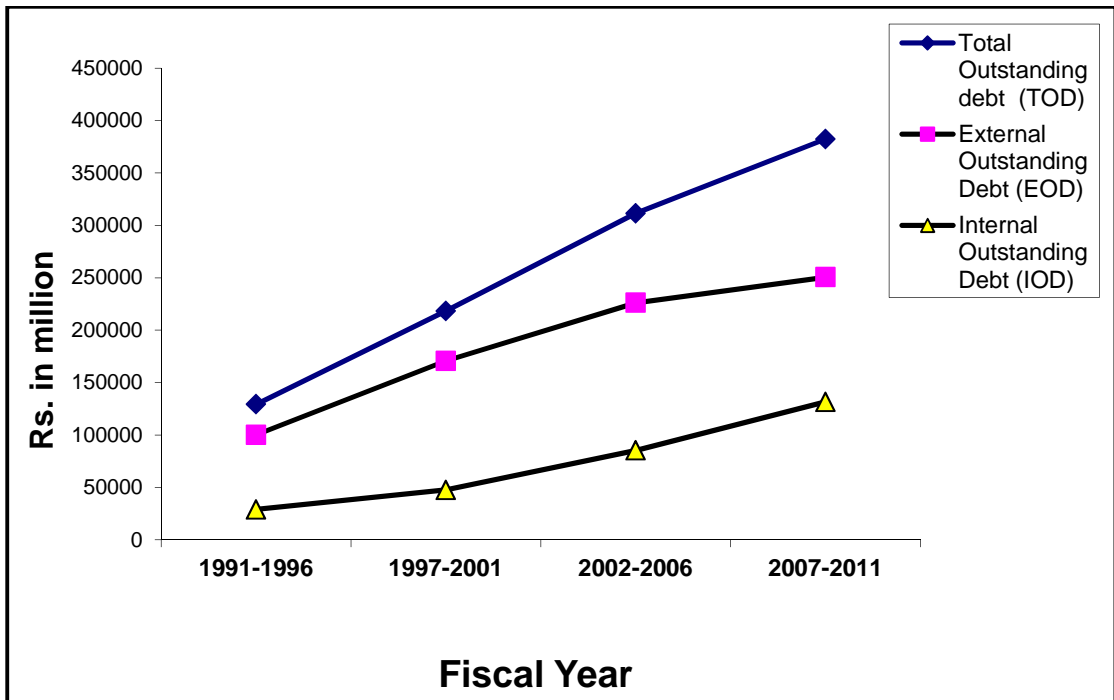


Fig. 4.2 shows the total outstanding debt, external outstanding debt and internal outstanding debt. Figure 4.2 shows that the increasing of external outstanding debt is higher than internal outstanding debt.

#### **4.7 Structure of Internal Net Outstanding Debt in Nepal**

Nepal's internal borrowing program has been carried out since the 1961. It is used for meeting the resource gap on the budgetary system and mobilizing financial resources for development.

The government mobilizes the internal borrowing by issuing mainly Treasury bills, Development bonds, National saving certificate and Special bonds. Treasury bills are short term credit instruments having three to twelve month maturity. It is generally used to absorb the liquidity of banking sector. Similarly, Development bonds, National saving certificate and Special bonds are long-term financial requirement having the maturity of 5 to 7 years. They are used to target financial institution to absorb their liquidity. Table 4.8 shows the structure of internal net outstanding debt in Nepal.

**Table 4.8: Component of Internal Net Outstanding Debt in Nepal**

Rs. in million

<b>Fiscal Year</b>	<b>Total Outstanding Debt</b>	<b>Treasury Bills</b>	<b>Development Bonds</b>	<b>National Saving Certificate</b>	<b>Special Bonds</b>
1991-1996	291243.8	5327.5	4558.2	5718.4	13520.2
1997-2001	47673.6	16699.9	4088.2	10610.4	15915.0
2002-2006	85334.9	42750.0	16531.5	8129.8	8754.4
2007-2011	131185.4	93446.0	29690.9	1341.3	6707.1

Source: Various Issues of Economic Survey, MOF/GON

Note : All the figures shown in tables are averages of five years.

Table 4.8 shows the structure of internal net outstanding debt in which the government mainly mobilizes the internal resources using four sources.

After the enforcement of public debt Act 1960, internal debt for the first time was issued by Nepal in 1962 through treasury bills amounting to Rs. 7.0 million. The next instrument of internal debt as development bonds was first issued in F.Y. 1963/64, amounting Rs. 250 million.

The table indicates the share of treasury bills, development bonds, national saving certificate and special bond the total amount of outstanding net internal debt being Rs. 5327.5 million, Rs. 4558.2 million, Rs. 5718.4 million and Rs. 13520.2 million respectively in 1991-96. In the review period, the amount of treasury bills is increasing but other amount is fluctuating. The amount of treasury bills is Rs. 93446.0 million that of development bonds is Rs. 29690.9 million, national saving certificate amounts to Rs. 1341.3 and the amount of special bonds was Rs. 6707.1 million in F.Y. 2007-11.

This shows that about half of internal net outstanding debt has been mobilized through Treasury Bills.

We can reach the conclusion by above table that the volume of internal borrowing has been increasing without the increase in tax revenue collection in proportion to the growth in the government expenditure.

#### **4.8 Structure of External Debt in Terms of Disbursement by Major Sources**

The point four program agreement signed between Nepal and US on January 23, 1951 heralded Nepal's first experience of foreign assistance. the US government assistance of Rs. 22 thousands was provided under President Harry Truman's point four programs. The trend of foreign aid inflow began to increase continuously after 1956. But Nepal has started to borrow foreign loan since 1964/65. The foreign assistance grants and loans are the major sources of foreign currency for Nepal.

External loans are divided into two parts:

- a. Bilateral Loans
- b. Multilateral Loans.

Bilateral loans are provided by the agreement of two friendly nations, loan from autonomous bodies. Multilateral loan are loans and credits from multilateral agencies such as World Bank, International Monetary Fund, Regional Development Bank and Other Multinational and inter government agencies.

Capital formation for development from both domestic and foreign sources is one of the fundamental factors for speeding up development process in developing countries. Insufficient capital is regarded as a part of vicious circle capital scarcity as a result underdevelopment. Therefore, it is pertinent to ask the theoretical question as to how the vicious circle of insufficient capital formation and development bottleneck's can be broken out (Kaldor, 1963).

It is necessary to compare and analyze the follow of foreign loan and its debt servicing through the earnings of foreign trade. The national economy is making the best use of the foreign fund being received in the form of bilateral and multilateral debt obligation. Review period between 1991-96 to 2007-11, the foreign loan disbursement has been shown in table. 4.9.

**Table 4.9: Structure of External Debt in terms of Disbursement by Major Sources**

Rs. in million

<b>Fiscal Year</b>	<b>Total External Loan (1)</b>	<b>Bilateral Loan (2)</b>	<b>Multilateral Loan (3)</b>	<b>(2) as a Percentage of (1)</b>	<b>(3) as a Percentage of (1)</b>
1991-1996	7935.5	1091.6	6542.7	19.5	80.5
1997-2001	11161.4	818.8	10342.6	7.5	92.5
2002-2006	4770.9	195.5	7275.4	3.6	96.4
2007-2011	35625.9	11777.3	23583.3	20.1	79.9
Average Growth Rate				12.7	87.3

Source: Various Issues of Economic Survey, MOF/GON

Note : All the figures shown in tables are averages of five years.

The above table shows, the decreasing trend of bilateral and increasing trend of multilateral loans during the review period. Multilateral loan is dominated by bilateral loans in the structure and composition of external debt in Nepal. In the starting year of review period 1991-96 the percentage share of bilateral loan on total external debt was 19.5 percent and multilateral loan was 80.5 percent. Similarly, by the end of the study year 2007-11, the percentage share of bilateral loan has been increasing to 20.1 percent where as multilateral loan has been decreasing to 79.9 percent. The average growth rate of bilateral and multilateral loans to total external loan is 12.7 percent and 87.3 percent respectively under the review period.

) **Use of Foreign Aid :** In the first eight months of the fiscal year 2010/11, the share of bilateral assistance among the total commitment was 34.75 percent while that of multilateral assistance was 65.25 percent. In the same period of the previous year, shares of bilateral and multilateral assistance were 41.0 percent and 59.0 percent respectively. While analyzing sector-wise foreign aid commitment in the first eight months of the current fiscal year 2010/11, the share of electricity sector was Rs. 16924.5 million, education 14144.3 million, and rural development Rs. 5391.5 million. Similarly, drinking water and sewerage shared Rs. 6240.0



million, agriculture, irrigation and forestry Rs. 5805.9 million, transport and communication Rs. 11449.8, health Rs. 18803.3 million and other sectors Rs. 33581.4 million.

### 3.9 Sector-wise Distribution of Public Borrowing

Deficit financing is the most useful method for promoting economic development in developing countries. It means as filling the gap caused by excess of government expenditure over its receipt, finance through public borrowing and creation of new currency. In other word, deficit-financing takes place even when a budget gap is covered by loan. The deficit financing is excess of expenditure incurred by the government over the receipts they get by the method of taxes, fee internal borrowing and other miscellaneous items including external assistance in the shape of grants and loans. It has been regarded as a means to cover the gap of financial resources for adequate internal and external monetary sources in order to fulfill the physical targets of the plans. Developing countries, like Nepal, need heavy investment to build up socio-economic infrastructure such as Agriculture, Transportation, Communication, Industry etc. to fulfill the objectives of economic development. Nepal has used external borrowing in different sectors such as Agriculture, Irrigation and Forestry; Transportation, Power and Communication; Industry and Commerce and Social Services which is shown on table 4.10.

**Table 4.10 : Public Borrowing by Sectors**

Rs. in million

Fiscal Year	Total Debt	External Debt	Agriculture Irrigation and Forestry	Transportation, Power and Communication	Industry and Commerce	Social Service
1991-1996	9859.3	7935.5	3229.6 (40.69)	3229.6 (40.69)	680.9 (8.57)	994.4 (12.53)
1997-2001	12902.2	11161.3	2721.7 (24.37)	5835.2 (52.28)	172.2 (1.54)	2423.9 (21.71)
2002-2006	16123.0	7470.9	1545.0 (20.69)	2252.1 (30.14)	21.2 (2.83)	2817.1 (37.77)
2007-2011	27384.0	11590.4	2926.3 (25.24)	3053.8 (26.34)	276.6 (2.30)	4174.4 (36.0)

Source: Various Issues of Economic Survey, MOF/GON

Note : All the figures shown in tables are averages of five years.

Note: Figure in parentheses ( ) is percentage distribution

Table 4.10 shows the use of external debt indifferent sector of economy. It shows the fluctuation trend of allocation through external debt to the various sector i.e. Agriculture, Irrigation and Forestry; Transportation, Power and Communication; Industry and Commerce; and Social Service. Transportation, power and communication sectors have got highest amount of loan, whereas agriculture, irrigation and forestry; Social Service and Industry and Commerce have got lowest amount of loan. It is sad to note that industry and commerce sectors are neglected by using low amount of loan and no amount of loan in some fiscal years as shown in the table. In this scenario, how can we have growth without industrialization of a country?

Similarly, the percentage share of Agriculture, Irrigation and Forestry; Transportation, Power and Communication; Industry and Commerce; and Social Service out of external debt is 40.69, 40.69, 8.57 and 12.53 respectively in the F.Y. 1991-96 where as the percentage share in F.Y. 2007-11 is 25.24, 30.14, 2.83 and 37.77 respectively.

In conclusion, the government's budget in Nepal has always remained in deficit. The revenue mobilization has not been satisfactory in relation to the increasing trend of government expenditure. The gap between government expenditure and revenue has not been narrowing. The government needs to manage its expenditure effectively and to enhance revenue mobilization capacity in order to reduce such gap. If the present status of revenue mobilization does not improve in recent future, the economy will have to bear highest cost of debt. The capacity of government's revenue mobilization seems to have weakened in recent year. So the public debt has to play a crucial role to finance fiscal deficit. From my review period, the government's sources to reduce the budgetary deficits are internal and external borrowing. The trend of external borrowing, especially bilateral and multilateral loan is increasing rapidly than internal borrowing, which has created some sort of constraint in the performance of economy as a whole. Hence it can be says that trend of public debt is increasing gradually but due to present political instability, consumption and inefficient government management in public debt, government expenditure is going towards unproductive sector which is the cause of macroeconomic instability in Nepal.

#### **4.10 Burden of Public Debt in Nepal**

Every country has given emphasis for economic development as well as public welfare. To solve the problem the deficiency of fund for development works public debt is being used. It is the result of mismatch between revenue and expenditure. Most of the developing countries always face the problems of finance due to the growing needs of expenditure for development financing.

The burden of public debt is the sacrifice and effect on the community through a rise in taxation at the time of payment and for paying the annual interest on the government loans. Now in Nepal government is bound to repay the public borrowing whether internally or externally with interest. The burden of public debt may be direct, indirect, monetary or real; and this may fall either on the present or future generation. Therefore the burden of public debt in Nepal is increasing day by day. There is a literature which tells that. In the case of Nepal burden is heading towards debt trap.

The internal debt may not have any direct money burden on community as a whole, since the payment of interest and increased taxation to meet the burden of debt involved simply transfer the purchasing power from one group of person to another, to the extent the creditors and tax payers are the same, there may not be net burden at all in the community. But to the extent of the creditors and tax payers are belong to different income groups, the changes in the distribution of income among different section of the community may take place. (Lerner, 1946)

Domar (1944), argued if interest on debt as a portion of national income raises, the burden of public debt increases, since a large proportion of national income will have to be taxed to pay that interest. This burden depends upon two factors: first, it depends upon the wastages that takes place in terms of administrative cost of the tax collection and interest payment, secondly it depends upon the distribution effects, such a process generates through this taxation and interest payment, the income inequalities increase, public debt may be claimed to have added to the burden of the debt.

In the case of Nepal, outstanding of public debt is increasing rapidly each year which becomes 44.4 percent to GDP in 2007-11. Large scale of public debts have been

incurred in the past for financing development programs, but debt servicing capacity has not been increasing in the same pace, so that there may be undue strain in the balance of payment owing to the out-flow of funds through debt services. Nepal has been borrowing new fresh loans to repay old loans. This also creates alarming situation of "debt trap" in the future. Hence, proper utilization of debt is necessary to reduce the debt burden. Hence direct money burden is also increasing due to unproductive utilization of foreign and internal debt.

#### 4.11 National Debts and Its Share in GDP

The ratio of public debt to GDP is an important indicator of the manageability of public debt in an economy. The relative magnitudes of the public debt of the GDP should be taken into consideration for assessing the burden of growing public indebtedness in an economy. Nepal has to borrow huge amount of loan from external as well as internal sources for meeting deficit budget. Burden of outstanding debt is increasing because of the tax revenue and non-tax revenue is not increasing as its expectation and unutilized of public debt and rampant corruption. Here, table 4.11 shows the burden of debt through the method of measure of burden of debt as the ratio of public debt to GDP.

**Table 4.11: Outstanding Debts and Its Share in GDP**

**Rs. in million**

Fiscal Year	Total Outstanding debt (TOD)	External Outstanding Debt (EOD)	Internal Outstanding Debt (IOD)	GDP	Share and as a Percentage of GDP		
					Total Debt	External Debt	Internal Debt
1991-1996	129395.6	100271.4	29124.2	190248.6	67.9	52.5	15.4
1997-2001	218444.9	170771.3	47673.6	329937.8	66.1	51.8	14.3
2002-2006	311492.0	226157.1	85334.9	177026.6	65.8	47.9	17.9
2007-2011	382272.5	250575.7	131696.8	637780.0	44.4	29.4	14.9

Source: Various issues of Economic Survey and NRB Report.

Note : All the figures shown in tables are averages of five years.

The table 4.11 shows the magnitude of outstanding debt, GDP and their ratio, which also assesses the burden of public debt. Total outstanding of public debt has increased from Rs. 129395.6 million in 1991-96 to 382272.5 million in 2007-11. And its share of GDP has decreased from 67.9 percent to 44.4 percent. The table also shows that the share of external debt has decreased from 52.5 percent to 29.4 percent and share of internal debt has also decreased from 15.4 percent to 14.9 percent respectively under the review period.

Observing table, the burden of external outstanding debt is greater than internal which may be danger in the future generation. In the table GDP is also increasing from Rs. 190248.6 million in 1991-96 to Rs. 637780.8 million in 2007-11. The growth rate of GDP is less than that of outstanding debt.

#### **4.12 Issues of Debt Servicing in Nepal**

Debt servicing obligation of government is very high and has been growing rapidly. The country faces great challenges in front of domestic debt servicing due to the stock of debt is of a short-term nature. Even the debt of larger maturity period has now come to the stage of redemption. The internal rate on such debt is high and most of the loan comes from the banking sector creating imbalances in the monetary sector with its impact on the inflationary situation.

The ratio of internal and external debt servicing to total debt servicing and their average annual growth rate and percentage of internal and external to total debt servicing during the review period F.Y. 1991-96 to F.Y. 2007-11 are the given in table 4.12

**Table 4.12: Share of External and Internal Debt Servicing in Total Debt Servicing**

**Rs. in million**

<b>Fiscal Year</b>	<b>Total Debt Servicing (TDS)</b>	<b>Internal Debt Servicing (IDS)</b>	<b>External Debt Servicing (IDS)</b>	<b>IDS as a Percentage of TDS</b>	<b>EDS as a Percentage of TDS</b>
1991-1996	5202.3	2689.4	2512.9	52.0	48.0
1997-2001	8870.8	4107.0	4763.8	46.7	53.3
2002-2006	17181.2	9330.8	7861.4	53.6	46.4
2007-2011	28210.5	15836.1	12374.4	56.0	44.0
Average Growth Rate				52.0	48.0

Source: Various issues of Economic Survey and NRB Report.

Note : All the figures shown in tables are averages of five years.

Table 4.12 reveals that the amount of total debt servicing in F.Y. 1991-96 was Rs. 5202.3 million has increased to Rs. 28210.5 million in F.Y. 2007-11. It is about 5.4 fold more than beginning year of the study period. This indicates an increasing trend of total debt servicing.

Similarly, the internal debt, servicing amount has increased from Rs. 2689.4 million in F.Y. 1991-96 to Rs. 15836.1 million in F.Y. 2007-11. It is 5.8 times more than of beginning years of review period and the external debt servicing has increased from Rs. 2512.9 million in F.Y. 1991-96 to Rs. 12374.4 million in F.Y. 2007-11. It is 7.7 times more than beginning year of review period.

This means the burden of internal debt is growing rapidly than burden of external debt. Thus, we find that the share of internal debt servicing in total debt servicing has been greater than that of external debt servicing throughout of the study period.

#### 4.13 Analysis of Internal Debt Servicing Situation

The burden of public debt is measured by the ratio between the debt servicing and aggregate tax revenue and non-tax revenue or total revenue and the ratio between servicing cost and national income (GDP). To analyze the pattern of internal debt servicing situation to total revenue, regular expenditure and GDP, this has been shown the table 4.13.

**Table 4.13 : Share of Internal Debt Servicing in Total Revenue, Regular Expenditure and GDP**

**Rs. in million**

<b>Fiscal Year</b>	<b>Total Revenue (TR)</b>	<b>Regular Expenditure (RE)</b>	<b>GDP</b>	<b>Internal Debt Servicing (IDS)</b>	<b>IDS as a % of TR</b>	<b>IDS % as a of RE</b>	<b>IDS as a % of GDP</b>
1991-1996	20142.1	14925.5	190248.6	2689.4	13.8	18.7	1.4
1997-2001	38470.0	32943.6	329937.8	4107.0	10.4	13.0	1.3
2002-2006	62282.2	62282.2	477024.6	9330.8	14.8	16.2	1.9
2007-2011	141951.3	141951.3	637778.0	15836.0	11.7	13.1	1.8
Average Growth Rate					12.6	15.3	1.6

Source: Various Issues of Economic Survey and NRB Reports

Note: All the figures shown in tables are averages of five years.

Table 4.13 shows the average annual growth rate and volume of total revenue, regular expenditure, GDP and internal debt servicing. It also shows the share of TR, RE and GDP as percentage of internal debt servicing. Under the study period (F.Y. 1991-96 to 2007-11) the magnitude of total revenue, regular expenditure, GDP and internal debt servicing was Rs. 20142.1, Rs. 14925.5, Rs. 190248.6, and Rs. 2689.4 million at the starting period of review, and which has increased to Rs. 141951.3, Rs. 89666, Rs. 637778.0 and Rs. 15836.0 million at the last period of review period respectively.

The internal debt servicing as percentage of total revenue was 13.8 percent in F.Y. 1991-96 and in middle period it has been fluctuating and 11.7 percent in F.Y. 2007-11 and it has been slightly increased, regular expenditure was 18.7 percent in F.Y. 1991-96 and has decreased to 13.1 percent in F.Y. 2007-11. Similarly the internal debt servicing as percentage of GDP was 1.4 percent in F.Y. 1991-96 and has increased to 1.8 percent in F.Y. 2007-11. It indicates that increasing trend of internal debt servicing as percentage of GDP. It shows that the growth rate of internal debt servicing is greater than growth rate of total revenue, and GDP. This indicates that the servicing capacity of the government has not increasing.

#### **4.14 Public Debt, Development Expenditure and Debt Servicing**

The increase in development expenditure is a reflection of the rising development activities of government in the development process. However the growth of development expenditure remained lower than the regular because of weak implementation of development projects resulting from political instability and lack of commitment. As regular expenditure shows on interesting phenomenon, it has a tendency to double in every five year.

The relation, of outstanding public debt, development expenditure and total debt servicing has been shows in table 4.14.

**Table 4.14 : Development Expenditure, Outstanding Public Debt and Total Debt Servicing**

**Rs. in million**

<b>Fiscal Year</b>	<b>Total outstanding Debt (TOD)</b>	<b>Total Debt Servicing (TDS)</b>	<b>Development Expenditure (DE)</b>	<b>TOD as a Percentage of DE</b>	<b>TDS as a Percentage of DE</b>
1991-1996	129395.7	5202.3	19178.0	632.0	25.3
1997-2001	219250.1	8870.8	26453.3	831.5	33.7
2002-2006	311492.0	17181.2	25434.5	1236.2	67.6
2007-2011	382272.5	28210.5	59746.6	682.4	49.8

Source: Various issues of Economic Survey and NRB Report

Note : All the figures shown in tables are averages of five years.



Table 4.14 shows that the magnitude of outstanding public debt has increased from Rs. 129395.7 million in 1991-96 to Rs. 382272.5 million in the last year of review period 2007-11. This shows the real burden of debt of Nepal where total outstanding of public debt as percentage of expenditure was 632.0 percent has increased 682.4 percent at the end of study period.

Similarly, total debt servicing was Rs. 5202.3 million in F.Y. 1991-96 and has gone up to 28210.5 million in F.Y. 2007-11. Total debt servicing as percentage of development expenditure has increased from 25.3 to 49.8 percent under the period of study.

From above table, development expenditure has increased from Rs. 19178.0 million at the beginning year F.Y. 1991-96 to Rs. 59746.6 million at the end of the F.Y. 2007-11. This shows the increasing trend of development expenditure is less than outstanding public debt.

These trends show that greater dependency on public debt for financing of development program in Nepal.

#### **4.15 Annual Internal Borrowing and Internal Debt Servicing**

The proportional relationship between annual internal debt servicing and annual borrowing can be taken as important aspects of internal debt analysis.

**Table 5.15 : Annual Internal Debt Servicing as Percentage of Annual Internal Borrowing**

<b>Fiscal Year</b>	<b>Internal Debt (ID)</b>	<b>Internal Debt Servicing (IDS)</b>	<b>IDS as a Percentage of ID</b>
1991-1996	1923.6	2689.4	140.2
1997-2001	4722.0	4107.0	94.3
2002-2006	8651.8	9330.8	112.4
2007-2011	19325.4	15836.0	90.4
Average Growth Rate			109.3

Source: Various issues of Economic Survey and NRB Report

Note : All the figures shown in tables are averages of five years.

The above table 4.15 shows that the volume of internal debt was Rs. 1923.6 million in 1991-96 and has gone up to Rs. 19325.4 million in F.Y. 2007-11. Likewise, internal debt servicing is also gone up from Rs. 2689.4 million to Rs. 15836.0 million. Again the magnitude of internal debt was less than internal debt servicing except the end of study period. This shows the fluctuating trend of internal debt.

Observing the table 4.15 proportion of annual borrowing being spent on debt servicing, in the starting year of the study period F.Y. 1991-96, percentage share of internal borrowing was 140.2 whereas percentage share of internal borrowing was decreased in the final year (i.e. 2007-11) of the study was 90.4 percent.

**Table 4.16 : Annual External Debt Servicing as Percentage of Annual External Borrowing**

<b>Fiscal Year</b>	<b>External Debt (ED)</b>	<b>External Debt Servicing (EDS)</b>	<b>EDS as a Percentage of ED</b>
1991-1996	6042.7	2512.9	31.6
1997-2001	11161.1	4763.8	42.3
2002-2006	7470.9	7861.3	110.6
2007-2011	11590.7	12374.4	112.6
Average Growth Rate			74.1

Source: Various issues of Economic Survey and NRB Report

Note : All the figures shown in tables are averages of five years.

Observing table 4.16, the volume of external debt was Rs. 6042.7 million in 1991-96 it has gone up to Rs. 11590.7 million 2007-11. And external debt servicing was Rs. 2512.9 million in 1991-96 and it has gone up to Rs. 12374.4 million in 2007-11. The percentage share to external debt has increased from 31.6 percent 112.1 percent.

All these trends show that Nepal's forth coming days will be changed into free of debt burden of these situation is running up continuously.

#### **4.16 Foreign Loan**

In underdeveloped countries one of the tasks foremost to the state is to stimulate the growth of the economy with stability. In most of them there is the escape from "vicious circle of poverty". There is small capacity of saving owing to a low level of real income. Low income is a reflection of low productivity, which is usually due to the lack of appropriate technology of capital equipment of the capacity to use them to the best advantage. Lack of capital is resulted largely from the small potentiality of saving. This in turn resulted from the low level of investment. Hence, the poverty sequence moves like 'inadequate capital' low productivity, low real income level and low purchasing power, inadequate inducement to save and to invest and adequate capital gain. This justifies that capital deficiency in the developing countries is a serious bottle back for the development.

Nepal is facing various problems like poverty; unemployment and Nepal's macroeconomic indicators show very low economic growth and declining economic performance recently. Nepal has to invest huge amount for security, which seems unproductive in present situation. Due to this reason, Nepal will have to depend upon foreign assistance and external loans; owing to heavy reliance on external assistance in the form of borrowing in public account Nepal's external public indebtedness has increased very much. A rise in external indebtedness should be accompanied by increase in debts seeming capacity so that there may be undue strain in the balance of payment owing to outflow of funds through debt services. Which may lead to the country to the heavy burden of debt crisis in the future.

Although foreign loans are main pillars for development process and to breakout vicious circle of insufficient domestic capital formation, it has adverse effect on national economy when it's service means that scarce foreign exchange resource have to be transferred to creditors countries.

If there are many problems being confronted by government, it becomes necessary for the government to seek foreign assistance for meeting development requirement. Because the advanced countries with high income have on obligation to assist in the process by providing aid and this obligation has been employee recognized, it is adequately implemented in recent years. However, "foreign aid is likely to be fruitful

only when it is complemented to domestic effort, not when it is treated as a substitute for it" (Nicholas Kaldor: 1963 Vol. 1: 225).

Professor Samuelson has suggested for use of foreign capital in the process of development in developing countries. He has said, "It there are many difficulties in the way of domestic financed capital formation, why not rely more heavily on foreign source". He has further said, "Doesn't economic theory tells that a rich country has used up all its own high interest investment projects can benefit it and at the sometime benefit a poor country abroad. If only it will shift investment to the high internal project not yet exploited abroad" (P.A. Samuelson, 1964).

However, the loans taken from external source have to be repaid when maturity is attained or grace period is expired. Interest of the loan is to be paid annually to the foreign creditors in foreign currency. The problem of balance of payment can arise or become acute because of foreign debt servicing in foreign currency. Therefore, for the purpose of foreign debt servicing foreign currency has to be earned through increasing volume of exportable goods and services. If this is not done then the purpose of external loan is not fulfilled and it really becomes a burden for the next generation servicing of foreign loan requires ever growing flow of foreign trade.

#### **4.17 External Debt Flow and its Annual Servicing**

The main feature of budgetary system in Nepal is deficit budget in which large proportion of it is fulfilled by external loan. Here the ratio of external outstanding debt to GDP has grown up creating adverse situation in the economy, which requires serious thinking for its solution.

Here, the attempt has been made to compare the annual flow of external debt with annual debt servicing obligation, which is shown in table 4.17.

**Table 4.17 : External Debt Flow and it's Servicing****Rs. in Million**

<b>Fiscal Year</b>	<b>External Debt (ED)</b>	<b>External Debt Servicing (EDS)</b>	<b>EDS as Percentage of ED</b>
1991-1996	6042.7	2512.9	31.6
1997-2001	11161.3	4763.8	42.3
2002-2006	7470.9	7861.3	110.6
2007-2011	11590.7	12374.4	112.1
Average			74.1
Growth Rate			

Source: Various issues of Economic Survey and NRB Report

Note : All the figures shown in tables are averages of five years.

The table 4.17 shows, the external debt was Rs. 6042.7 million in 1991-96 and has increased to 11590.7 million in 2007-11. The amount of external debt servicing has increased from Rs. 2512.9 million in 1991-96 to Rs. 12374.4 million in 2007.11. These indicators threaten about it's increasing burden because it is going to be not only large proportion of exchange earning but also rather large proportion of new borrowing. In F.Y. 2007-11, 112.1 percent of external debt servicing is transferred to external debt. But there always remain one question how it is possible? It is magic? It proved that if we use foreign loan in the productive sector then it is possible for repayment. And remittance has also played a vital role to develop our economy in the current year. Due to the need for internal security maintenance, the external debt in the last few years had been increasing at very high rate.

#### **4.18 External Debt Servicing and Export**

The attempt has been made to compute the ratio of external debt servicing to export earning and debt servicing to GDP. In Nepal, the large proportion of GDP and export earning go back to foreign countries while servicing. Table 4.18 shows the external debt burden in terms of export earning, debt servicing and ratio to GDP.

**Table 4.18 : External Debt Servicing, Export Earning and GDP Ratio**

**Rs. in Million**

<b>Fiscal Year</b>	<b>GDP</b>	<b>External Debt Servicing (EDS)</b>	<b>Export</b>	<b>EDS as a Percentage of GDP</b>	<b>EDS as a percentage of Export</b>
1991-1996	190248.6	2512.9	14382.2	1.3	14.9
1997-2001	329937.8	4763.8	38260.6	1.4	13.0
2002-2006	477024.6	7861.3	53945.2	1.6	14.6
2007-2011	637778	12374.4	62272.4	1.4	19.8
Average Growth Rate				1.4	15.3

Source: Various issues of Economic Survey and NRB Report

Note : All the figures shown in tables are averages of five years.

This table 4.18 shows that the magnitude of export earning was Rs. 14382.2 million in 1991-96 that has increased up to Rs. 62272.4 million in 2007-11 i.e. 4.3 folds.

From the table 4.18 the ratio in percentage of external debt servicing to export earning was 14.9 percentage in 1991-96 and increased to 19.8 percent in 2007-11. The average growth rate of this ratio is 15.2 under the study period.

Similarly, the ratio of external debt servicing to GDP has increased from 1.3 percent in 1991-96 to 1.4 percent in 2007-11. Its average annual ratio is 1.4 percent.

The above indicators introduce difficulties and affect the rate of capital formation in the economy because of the growing magnitude of interest payment and repayments in terms of the foreign exchange but scare in underdevelopment countries like Nepal.

#### **4.19 Outstanding External Debt and Import**

The relationship between external debt burden and import payments and their average annual growth rate and the ratio of imports payments to external debt are shown in table 4.19.

**Table 4.19 : Ratio of External Outstanding Debt and Import Payment**

**Rs. in Million**

<b>Fiscal Year</b>	<b>External Outstanding Debt (EOD)</b>	<b>Import</b>	<b>Import as Percentage of EOD</b>
1991-1996	100271.4	52170.0	50.9
1997-2001	170771.3	98852.56	58.4
2002-2006	226157.1	138254.4	61.0
2007-2011	250575.7	295234.8	86.4
Average Growth Rate			64.2

Source: Various issues of Economic Survey and NRB Report.

Note : All the figures shown in tables are averages of five years.

The table 4.19 indicates the increasing trend of external outstanding debt which indicates the serious problem in external debt burden of Nepal. On the other hand, the magnitude of import payment was Rs. 52170 million in 1991-96 and it has gone up to Rs. 295234.8 million in 2007-11. This shows the large proportion of foreign exchange transferred to foreign countries for import of goods and services.

Table 4.19 also shows import payment as percentage of external outstanding debt, which was 50.9 percent in 1991-96 and its increasing trend shows tremendous and has gone up to 86.4 percent in 2007-11. This indicators show that purpose of external debt is not going right direction and balance of payments hampered. Its average annual growth rate is 64.2 percent, which indicates more than half of external debt has transferred for import payments showing gradual increase in import of goods and service from abroad, this also the cause of affected balance of payments.

### **Debt Burden Capacity Measurement**

A country can take loan burden or not that depend upon the following criterion which was developed by Bretton Woods Institute, by comparing following ratios.

- ) Value of present debt and ratio of export.
- ) Total debt servicing expenditure and export ratio.

If first ratio is more than 150 percent and second is more than 20 percent then the country is going towards the debt trap or no more debt can be utilized. Therefore Nepal has given application to become the member of highly indebted countries (HIPC) in World Bank.

#### **4.20 Major Findings**

- J Revenue Deficit (TE-TR) was 12905.5 million in F.Y. 1991/92, which increased to Rs. 95544.4 million in F.Y. 2010/11. The average annual growth of Government Revenue and Government Expenditure is 15.12 percent and 13.92 respectively. Amount of government expenditure is higher than revenue, which is Rs. 295363.4 million and Rs. 199819.0 million in F.Y. 2010/11. This shows the financial resources gap in which budget deficit has been increased from Rs. 11261.7 million to Rs. 56998.5 million under the review period.
- J The total public debt has been increasing from Rs. 8895.7 million to Rs. 42644.2 million from 1991/92 up to 2010/11 where as share of external loan to budget deficit has decreased from 60.5 percent to 27.4 percent and share of internal loan has been increasing and some years fluctuating from 18.5 percent to 47.4 percent under the review period. Its average annual growth is from 51.35 percent and 34.85 percent under the review period.
- J Main sources of financing deficit are loan and grant. In F.Y. 1991/92 share of external borrowing was Rs. 6816.9 million where as the share of internal borrowing was Rs. 2078.8 million, but in F.Y. 2010/11 the amount of external borrowing was Rs. 15642.6 million and internal borrowing was Rs. 27019.6 million. It shows that both sources of borrowing are increasing.
- J Foreign grants has been increasing from Rs. 1643.8 million in F.Y. 1991/92 to Rs. 38545.9 million in 2010/11 under the study period, but it is not increased as it is expected.
- J During the period F.Y. 1991/92 to F.Y. 2010/11, the percentage share of total debt to GDP has been decreasing from 6.1 percent to 3.4 percent with 4.2 percent average annual growth rate. Similarly, internal debt to GDP was 1.4 percent in F.Y. 1991/92 which has increased to 2.1 percent in F.Y. 2010/11



with 1.5 percent average annual growth rate where as external debt is GDP was 4.7 percent in F.Y. 1991/92 and decreased to 1.2 percent in F.Y. 2010/11 with 2.6 percent average annual growth rate.

- ) In the study period, the share of external outstanding debt in GDP was 48.9 percent in 1991/92 which come down 20.8 percent in 2010/11 but, the share of internal, outstanding debt in GDP was from 16.0 percent in 1991/92 which become 14.7 percent in 2010/11. Therefore the share of total outstanding debt in GDP has reduced 65.0 percent 35.6 percent during the review period.
- ) Total internal debt was raised of Rs. 3483.2 million from which treasury bills, Rs. 5132.2 million from development bonds, Rs. 45460.3 million from National Saving Certificate and Rs. 10073.2 million from special bonds in F.Y. 1991/92. But in F.Y. 2010/11, government received Rs. 126847.0 million from treasury bills, Rs. 47194.0 million from development bonds, Rs. 1068.0 million from National Savin Certificate and Rs. 5287.0 million from special bonds. This shows that the trend of increasing internal debt is rising in the review period.
- ) It is found out that total loan, share of multilateral sources is higher than bilateral sources, because in F.Y. 2010/11 out of the external loan 71957.5 million and Rs. 46950.9 million was multilateral and 25006.6 million was Bilateral Loan and percentage of bilateral and multilateral loan to total external loan were 35.0 percent in 1991/92 to 34.7 percent in 2010/11 and similarly, 57.0 percent in 1991/92 to 65.2 percent in 2010/11 respectively. Here share of multilateral loan to external loan is high than the bilateral loan.
- ) Study shows that we find transportation, power and communication sector have got highest amount of loan, whereas agriculture, irrigation, and forestry; social service and industry and commerce have got lowest amount of loan respectively. It is sad to know that industry and commerce sector is neglected in using low amount of loan and some fiscal years no amount of loan is allocated.

- ) External outstanding debt as percentage of GDP was 48.9 percent in F.Y. 1991/92, which was 20.8 percent in F.Y. 2010/11. Similarly internal outstanding debt as percentage of GDP was 16.0 percent in F.Y. 1991/92 to 14.7 percent in F.Y. 2010/11. This clearly shows that the burden of external debt which is quite heavy.
- ) The trend of total debt servicing of Nepal is increasing. total debt servicing has increased from Rs. 3797.1 million in 1991/92 to Rs. 34325.9 million in 2010/11. Average annual growth of external debt servicing to total debt servicing is 48.0 percent where as average annual growth rate of internal debt servicing to total debt servicing 52.0 percent, which shows the large amount of total debt is spending for internal debt servicing.
- ) From the review period, the percentage share of internal debt servicing was 102.6 percent in 1991/92 and 72.5 percent in last year. There is 109.3 percent of average annual growth rate of internal debt servicing.
- ) During the review period, the external debt servicing to export earning ratio was 12.1 percent in F.Y. 1991/92 and which has increased to 22.8 percent in F.Y. 2010/11 and the ratio of external debt servicing to GDP has also increased from 1.1 percent in to 1.2 percent in same year. This indicates that external debt servicing is increasing to some extent.
- ) In review period between 1991/92 to 2010/11, the percentage of external debt services was 24.4 percent in starting year and it is 94.1 percent in last year of review , with 73.7 percent average annual growth rate. The indicators raise question about its increasing burden because it is going to consume not only large proportion of exchange earning but rather large proportion of new borrowing too.
- ) From the review period, the Export Earning was 13706.5 million in 1991/92 and has gone up to 64338.5 million in F.Y. 2010/11 the magnitude of import payment was Rs. 31940.0 million in 1991/92 and has gone up to Rs. 396175.5 million in 2010/11 with the 71.7 percentage of average annual growth rate. This shows the large proportion of foreign exchange transferred to foreign countries for import of goods and services.

## **CHAPTER - V**

### **SUMMARY, CONCLUSIONS AND SUGGESTION**

#### **5.1 Summary**

Nepal is facing the problem of financing ever increasing resource gap due to mismatch between the annual growth rate of the government expenditure and its revenue. The widening resource gap in recent years has cumulative effect of the deficiencies in the investment areas and continuous absence of government's fiscal norms.

In Nepal, external borrowing is increasing more rapidly than internal borrowing. The increasing trend of public borrowing, debt servicing obligations are also increasing rapidly. But debt servicing capacity has not been increasing with the same pace.

Internal public debt has played a significant role in the financial resources for development expenditure as well as in the growth of money and capital market. It also facilitates the effective implementation of monetary policy. The domestic resources are not sufficient to meet the rapid development need of the Nepali economy. Therefore, external assistance plays obvious function in the development force for financial resources and helps to solve the resource gap in the country's budgetary expenditure.

To meet the growing needs of financial resources for financing development expenditure, dependency on foreign assistance has been increasing due to poor and insufficient domestic resource mobilization. Thus it is necessary to bridge the fiscal deficit and improve most essential capital goods for development projects .

Burden of public debt and debt servicing has been increasing continuously. Public debt, in fact is the accumulation of net borrowing of different year. In the context of the Nepali economy, a question may arise whether the country's revenue and foreign exchange availability can sustain or not. If the country's sources

cannot meet external debt service payments that will need to borrow external loans for debt servicing which may lead to debt trap.

## **5.2 Conclusions**

Public debt plays a significant role to finance development expenditure, to control inflation and to mobilize the internal resources in productive sector. Nepalese economy is passing through the huge amount of fiscal deficit and savings investment gap. There has been excessive flow of foreign loans to bridge up those gaps. There is a substantial increase in foreign debt over the years, which leads to increase heavy dependency on foreign loan. The total debt and debt servicing obligation are increasing rapidly in each year but debt servicing capacity and the revenue are not increasing to required rate. During the study period of 20 years (1991/92 to 2010/11) the annual average growth rate of GDP, revenue and export earning were considerably low in comparison with annual growth rate of debt and debt servicing obligations.

The ultimate effect of lower capacity to debt servicing further reduces capital formation and development process. Loan component through internal and external sources both are under easing annually and its growth rate is higher than GDP growth rate and revenue growth rate. Such a situation suggests for better utilization of government fund.

Nepali economy is characterized by three kinds of macroeconomic imbalance viz.- saving-investment gap, export-import gap and revenue-expenditure gap. These fundamental gaps represent the foreign dominance in Nepalese economy, while saving-investment and revenue expenditure gap are mainly the consequence of excess government activities in economic matters. To fill up these gaps public debt in the form of either internal or external is inevitable. The volume of external debt is excessively rising in the recent years under liberalization policy. As globalization concept is wide spreading all over the world, aid is gradually decreasing and emphasis goes on loans, technology transfers and trade which have created high degree of indebtedness and consequently, debt servicing obligations are increasing. In the meanwhile, the loan is not self-liquidating i.e., the debt repayment capacity is not increasing in the same pace. During the study period, average annual growth rate of

GDP, revenue and merchandise export earnings are out stepped by annual growth rate of debt and debt servicing obligations.

The ultimate effect of lower capacity to debt servicing falls on capital formation and development process, Mismanagement of fund resulted on lack of self liquidating projects. After the study, it can be concluded that Nepal has not really fallen into the debt trap but if the process continues for years, there will be no other result. Both the internal and external loans are in increasing trend but debt servicing amount is increasing annual and its growth rate is higher than GDP growth rate and revenue growth rate. Such condition suggests to better utilization of fund.

The analysis of this study reveals that there exists significant positive relationship between External Debt, Internal Debt and Total Debt with Gross Domestic Product (GDP). Higher external debt is associated with higher Domestic output and vice versa. The analysis of the effect of external debt on output reveals that there exist significant positive relationship between external debt and GDP. Therefore it is necessary to have a careful look on the increasing magnitude of external debt and proper care must be taken to increase the debt servicing capacity of the country.

### **5.3 Suggestion**

While studying on the topic Trend and Structure of Public Debt in Nepal Some Recommendations are given to address the problem of public debt in Nepal.

- ) The size of overall budgetary deficits excluding grants has remained high mainly due to low revenue and very high expenditure. This has led to heavy borrowing from internal and external sources. So, for reducing the volume of borrowing, revenue collection is to be increased substantially in order to attain self-sufficiency in the long run. This can be done by improving effective tax policy and tax administration. This also includes simplification of tax rates, rationalization of tax structure and expansion of tax base.
- ) Allocatory aspects of expenditure must be taken into consideration the basis of national priority so that productivity and production may increase within stipulated time period.

- ) Large proportion of internal borrowing comes from banking sector, particularly from the central bank, which is expansionary therefore, this aspect of internal borrowing is to be kept within limitation. Repayment of overdue amount and over draft taken by the government has to be made in the form of marketable instrument so that public debt management can play complementary role in monetary management. Now proper time has come to put legal ceiling on government overdrawn from the central bank (Nepal Rastra Bank).

Besides this the proper time has also come to issue development bonds and national saving certificates with discount and with some additional attraction and concession. This process can increase borrowing from individuals or real borrowing which is anti-expansionary or contractionary.

- ) For effective utilization of loan it is necessary to create absorptive capacity in the economy. Borrowed fund from both internal and external sources is to be spent on those projects which are capable of producing exportable commodities within shortest possible time period. It is known fact that large volume of loan obtained from external sources has remained unutilized creating additional burden of debt servicing.
- ) Effective supervision of financial institutions has also become a necessity to make them careful and disciplined in maintaining a well diversified loan portfolio because private sector is not always and everywhere efficient. This fact has also been revealed by the recent survey of ADB which has shown the large volume of loan given by Nepalese banking sector is non- performing.
- ) This gradual increase in external debt has been, to greater extent, responsible for increasing volume of imports of conspicuous consumer good. This tendency must be discouraged by adopting suitable import policy. In the other words import policy should emphasize imports of capital good, for productive purposes.

- ) External loan should not contain the element of conditionality. External loan negotiations must be made on the basis of necessity of the economy and project specific. Domestic experts are to be employed instead of foreign experts to save foreign exchange.
- ) Borrowed fund from external sources must be spent on those projects which are of highly productive nature and can produce exportable items and these projects are to be kept under constant supervision and monitoring process.
- ) Considering the increasing trend of debt servicing problem and its impact on the government expenditure effective measure should be taken. Firstly, it is necessary to reduce the fiscal deficit by adopting effective privatization policy to reduce government expenditure.
- ) Sound economic policy has also great impact on reducing debt problems of the least developed countries. Countries such as Indonesia, Republic of Korea and Thailand have been successful in avoiding major debt burden because of efficient use of domestic resources in both the public and private sectors.
- ) There is need for priority and quality settings on all foreign added development projects. Foreign added project should be designed to fulfill the current needs of the society where production and productivity can be increased because productive capacity of the economy must be increased through the loan.
- ) It is known that trade performance or export promotion helps to lessen the debt burden. Therefore human resource development, commercialization in agriculture, technology, peace and security and corruption less good government is the key factor to increase export and to develop product.
- ) Government should limit itself in accepting concessionary loans and to stop taking unnecessary loans until new constitutions will be promulgated otherwise it can lead to the inflationary condition.

## APPENDIX -A

### Different Scenarios of Resource Gap

Rs in million

<b>Fiscal Year</b>	<b>Government Revenue (a)</b>	<b>Annual growth rate GR</b>	<b>Government Expenditure (b)</b>	<b>Annual Growth Rate of GE</b>	<b>Scenario (I) Fiscal deficit (b-a)</b>	<b>Annual Growth of FD</b>	<b>Foreign grant (c)</b>	<b>Annual growth of FG</b>	<b>Scenario (II) budget deficit (I-C)</b>	<b>Annual Growth of BD</b>
1991/92	13512.7	-	26418.2	-	12905.5	-	1643.8	-	11261.7	-
1992/93	15148.8	12.10	30897.7	16.96	15749.3	22.04	3793.3	130.76	11956.0	6.17
1993/94	19580.8	29.26	33597.4	8.74	14016.5	-11.00	2393.6	-36.90	11622.9	-2.79
1994/95	24605.1	25.66	39060.0	16.26	14454.9	3.13	3937.1	64.48	10577.8	-9.51
1995/96	27893.1	13.36	46542.4	19.16	18649.3	29.02	4825.1	22.55	13824.2	31.44
1996/97	30373.5	8.89	50723.7	8.98	20350.2	9.12	5988.3	24.11	14361.9	3.89
1997/98	32937.9	8.44	56118.3	10.64	23180.4	13.91	5402.6	-9.78	17777.8	23.78
1998/99	37251.3	13.10	59579.0	6.17	22327.7	-3.68	4336.6	-19.73	17991.1	1.20
1999/2000	42893.8	15.15	66272.5	11.23	23378.7	4.71	5711.7	31.71	17667.0	-1.80
2000/01	48893.6	13.99	79835.1	20.46	30941.5	32.35	6753.4	18.24	24188.1	36.91
2001/02	50445.5	3.17	80072.1	0.30	29626.6	-4.25	6686.2	-1.00	22940.4	-5.16
2002/03	56229.8	11.47	84006.1	4.91	27776.3	-6.25	11339.1	69.59	16437.2	-28.35
2003/04	62331.0	10.85	89442.6	6.47	27111.6	-2.39	11283.4	-0.49	15828.2	-3.71
2004/05	70122.7	12.50	102560.4	14.67	32437.7	19.65	14391.2	27.54	18046.5	14.01
2005/06	72282.1	3.08	110889.2	8.12	38607.1	19.02	13827.5	-3.92	24779.6	37.31
2006/07	86686.0	19.92	116832.3	5.35	30146.3	-21.91	15800.8	14.27	14345.5	-42.10
2007/08	104939.3	21.05	138059.6	18.16	33120.3	9.86	20320.7	28.60	12799.6	-10.77
2008/09	138372.0	31.85	194648.9	40.98	56276.9	69.91	34570.4	70.12	21706.5	69.58
2009/10	179940.3	30.04	259146.1	33.13	79205.8	40.74	37117.4	7.36	42088.4	93.89
2010/11	199819.0	11.04	295363.4	13.97	95544.4	20.62	38545.9	3.84	56998.5	35.42
<b>Average Annual Growth Rate</b>		15.52		13.92		12.84		23.22		11.28



## APPENDIX -B

### Resources Gap as a Percentage of GDP

Rs. in million

<b>Fiscal Year</b>	<b>Nominal GDP at Current Price</b>	<b>Fiscal deficit</b>	<b>Fiscal deficit as a percentage of GDP</b>	<b>Budget deficit</b>	<b>Budget deficit as a percentage of GDP</b>
1991/92	144933	12905.5	8.9	11261.7	7.8
1992/93	165350	15749.3	9.2	11956.0	7.2
1993/94	191596	14016.5	6.7	11622.9	6
1994/95	209976	14454.9	7.0	10577.8	5
1995/96	239388	18649.3	7.8	13824.2	5.8
1996/97	269570	20350.2	7.5	14361.9	5.3
1997/98	289798	23180.4	8	17777.8	6.1
1998/99	330018	22327.7	6.8	17991.1	5.5
1999/2000	366251	23378.7	6.4	17667.0	4.8
2000/01	394052	30941.5	7.9	24188.1	6.1
2001/02	406138	29626.6	7.3	22940.4	5.7
2002/03	437546	27776.3	6.4	16437.2	3.8
2003/04	474919	27111.6	5.5	15828.2	3.2
2004/05	508651	32437.7	6.3	18046.5	3.5
2005/06	557869	38607.1	6.9	24779.6	4.4
2006/07	654084	30146.3	4.6	20146.5	3.08
2007/08	727827	33120.3	4.5	25724.8	3.5
2008/09	815663	56276.9	6.9	35785.6	4.4
2009/10	991316	79205.8	7.9	42088.4	4.2
2010/11	1246243	95544.4	7.6	56998.5	4.51
Average Annual Growth Rate			7.0		5.02

## APPENDIX -C

### Internal and External Debt as a Percentage of Fiscal Deficit

Rs. in million

<b>Fiscal Year</b>	<b>Budget Deficit (BD)</b>	<b>Total debt (TD)</b>	<b>Internal Debt (ID)</b>	<b>External Debt (ED)</b>	<b>ID as a Percentage of BD</b>	<b>ED as a Percentage of BD</b>
1991/92	11261.7	8895.7	2078.8	6816.9	18.5	60.5
1992/93	11956.0	8540.9	1620.0	6920.9	13.5	57.9
1993/94	11622.9	10983.6	1820.0	9163.6	15.7	78.8
1994/95	10253.2	9212.3	1900.0	7312.3	18.5	71.3
1995/96	13825.8	11663.9	2200.0	9463.9	15.9	68.5
1996/97	17061.9	12043.6	3000.0	9043.6	17.6	64.7
1997/98	14964.7	14454.6	3400.0	11054.4	22.7	73.9
1998/99	17991.1	16562.4	4710.0	11852.4	26.2	65.9
1999/2000	17667.1	17312.2	5500.0	11812.2	31.1	66.9
2000/01	24187.8	19044.0	7000.0	12044.0	28.9	49.8
2001/02	22940.4	15698.7	8000.0	7698.7	34.9	33.6
2002/03	16437.2	13426.8	8880.0	4546.4	54.0	37.7
2003/04	15828.2	13236.8	5607.0	7629.0	35.9	48.2
2004/05	18046.5	18204.2	8938.1	9266.1	49.5	51.3
2005/06	24779.6	20048.5	11834.2	8214.4	47.8	33.1
2006/07	2014.6	17642.6	10421.1	7221.5	51.7	35.8
2007/08	25724.8	21382.4	12643.4	8739.0	49.1	33.9
2008/09	35785.6	31486.6	18628.7	12857.9	52.05	35.9
2009/10	42088.4	41406.7	27914.0	13492.7	66.32	32.05
2010/11	56998.5	42644.2	27019.6	15642.6	47.40	27.44
Average Annual Growth Rate					34.85	51.35

## APPENDIX D

### Indicators of Fiscal Deficit

(Annual Percentage Change)

<b>Fiscal Year</b>	<b>Gross Fiscal Deficit Before Foreign Grants</b>	<b>Gross Fiscal Deficit After Foreign Grants</b>	<b>Primary Deficit</b>	<b>Revenue Deficit</b>
1991/92	23.5	26.7	29.7	
1992/93	0.7	5.7	-3.5	20.8
1993/94	22.0	6.2	3.7	14.2
1994/95	-11.0	-2.8	-3.6	1.6
1995/96	3.3	-9.3	-17.6	95.7
1996/97	28.8	31.1	39.9	-256.0
1997/98	9.1	3.9	3.3	19.2
1998/99	13.9	23.8	36.3	-2.2
1999/2000	-3.2	1.9	0.0	-6.9
2000/01	4.2	-2.4	-8.4	-88.4
2001/02	32.3	36.9	51.7	213.5
2002/03	-4.2	-5.2	-11.9	-225.3
2003/04	-6.2	-28.3	-42.8	84.2
2004/05	-2.4	-3.7	-5.4	11.7
2005/06	19.6	14.0	27.4	-25.9
2006/07	19.0	37.3	57.4	76.6
2007/08	18.9	21.4	28.5	-31.5
2008/09	17.1	11.0	13.0	-96.6
2009/10	32.8	10.1	0.0	-1019.3
2010/11	32.7	35.4	50.6	214.4

## APPENDIX E

### Recurrent Expenditure on Social Services

(Percent of GDP)

<b>Fiscal Year</b>	<b>Education</b>	<b>Health</b>	<b>Drinking Water</b>	<b>Local Development</b>	<b>Other Social Service</b>	<b>Total</b>
1991/92	0.3	0.3	0.0	0.0	0.1	0.7
1992/93	0.3	0.2	0.0	0.0	0.1	0.6
1993/94	0.3	0.3	0.0	0.0	0.1	0.7
1994/95	0.4	0.3	0.0	0.0	0.1	0.8
1995/96	0.4	0.3	0.0	0.0	0.0	0.7
1996/97	1.6	0.3	0.0	0.0	0.1	2.0
1997/98	1.8	0.3	0.0	0.0	0.1	2.2
1998/99	1.7	0.3	0.0	0.0	0.1	2.1
1999/2000	1.9	0.3	0.0	0.0	0.1	2.3
2000/01	1.8	0.3	0.0	0.0	0.0	2.2
2001/02	1.8	0.3	0.0	0.0	0.1	2.2
2002/03	1.9	0.4	0.0	0.0	0.2	2.5
2003/04	2.6	0.6	0.1	0.1	0.3	3.7
2004/05	2.5	0.7	0.1	0.3	0.3	3.8
2005/06	2.5	0.7	0.1	0.3	0.3	3.9
2006/07	2.7	0.7	0.1	0.3	0.2	3.9
2007/08	2.7	0.8	0.1	0.2	0.1	3.9
2008/09	2.7	0.9	0.1	0.3	0.1	4.1
2009/10	2.9	0.9	0.1	0.3	0.1	4.3
2010/11	2.5	0.8	0.1	0.2	0.2	3.8

## APPENDIX F

### Growth Trends of Government Borrowing in Nepal

Rs. in million

<b>Fiscal Year</b>	<b>Nominal GDP at Current Price</b>	<b>Total debt (TD)</b>	<b>External Debt (ED)</b>	<b>Internal Debt (ID)</b>	<b>TD as % of GDP</b>	<b>ED as a % of GDP</b>	<b>ID as a % of GDP</b>
1991/92	144933	8895.7	6816.9	2078.8	6.14	4.70	1.43
1992/93	165350	8540.9	6920.9	1620.0	5.17	4.19	0.98
1993/94	191596	10983.6	9163.6	1820.0	5.73	4.78	0.95
1994/95	209976	9212.3	7312.3	1900.0	4.39	3.48	0.90
1995/96	239388	11663.9	9463.9	2200.0	4.87	3.95	0.92
1996/97	269570	12043.6	9043.6	3000.0	4.47	3.35	1.11
1997/98	289798	14454.6	11054.6	3400.0	4.99	3.81	1.17
1998/99	330018	16562.4	11852.4	4710.0	5.02	3.59	1.43
1999/2000	366251	17312.2	11812.2	5500.0	4.73	3.23	1.50
2000/01	394052	19044.0	12044.0	7000.0	4.83	3.06	1.78
2001/02	406138	15698.7	7698.7	8000.0	3.87	1.90	1.97
2002/03	437546	13426.8	4546.4	8880.0	3.07	1.04	2.03
2003/04	474919	13236.8	7629.0	5607.0	2.79	1.61	1.18
2004/05	508651	18204.2	9266.1	8938.1	3.58	1.82	1.76
2005/06	557869	20048.5	8214.4	11834.2	3.50	1.4	2.10
2006/07	654084	17642.6	7221.5	10421.1	2.69	1.10	1.59
2007/08	727827	21382.4	8739.0	12643.4	2.93	1.20	1.73
2008/09	815663	31486.6	12857.9	18628.7	3.86	1.58	2.28
2009/10	991316	41406.7	13492.7	27914.0	4.17	1.36	2.75
2010/11	1246243	42644.2	15642.6	27019.6	3.42	1.25	2.16
Average Annual Growth Rate					4.20	2.61	1.57

## APPENDIX G

### Outstanding Public Debt in Nepal

Rs. in million

<b>Fiscal Year</b>	<b>Nominal GDP at Current Price</b>	<b>Total Outstanding debt (TOD)</b>	<b>External Outstanding Debt (EOD)</b>	<b>Internal Outstanding Debt (IOD)</b>	<b>TOD as a % of GDP</b>	<b>EOD as a % of GDP</b>	<b>IOD as a % of GDP</b>
1991/92	144933	94158.8	70923.9	23234.9	65.0	48.9	16.0
1992/93	165350	112876.9	87420.8	25456.1	68.3	52.9	15.4
1993/94	191596	132598.0	101966.8	30631.2	69.2	53.2	16.0
1994/95	209976	145058.7	113000.9	32057.8	69.1	53.8	15.3
1995/96	239388	162286.3	128044.4	34241.9	67.8	53.5	14.3
1996/97	269570	167977.7	132086.8	35890.9	62.3	49.0	13.3
1997/98	289798	199614.7	161208.0	38406.7	68.9	55.6	13.3
1998/99	330018	219135.5	169465.9	49669.7	66.4	51.4	15.1
1999/2000	366251	245048.2	190691.2	54357.0	66.9	52.1	14.8
2000/01	394052	264474.4	200404.6	60043.8	66.1	50.9	15.2
2001/02	406138	293746.3	220125.6	73620.7	72.3	54.2	18.1
2002/03	437546	308078.5	223433.2	84645.3	70.4	51.1	19.3
2003/04	474919	318913.0	232779.3	86133.7	67.2	49.0	18.1
2004/05	508651	307206.1	219641.9	87564.2	60.4	43.2	17.2
2005/06	557869	329516.2	234805.6	94710.6	59.1	42.0	17.0
2006/07	654084	315932.8	216628.9	99303.9	48.3	33.1	15.2
2007/08	727827	361204.5	249965.4	111239.1	49.6	34.3	15.3
2008/09	815663	394481.1	273607.3	120873.8	48.4	33.5	14.9
2009/10	991316	395984.9	253125.2	142859.7	39.94	25.53	14.41
2010/11	1246243	443759.3	259551.8	184207.5	35.60	20.82	14.79
Average Annual Growth Rate	-				61.0	45.3	15.6

## APPENDIX H

### Component of Internal Net Outstanding Debt in Nepal

Rs. in million

<b>Fiscal Year</b>	<b>Total Outstanding Debt</b>	<b>Treasury Bills</b>	<b>Development Bonds</b>	<b>National Saving Certificate</b>	<b>Special Bonds</b>
1991/92	23234.9	3483.2 (14.99)	5132.2 (22.10)	4546.3 (19.56)	10073.2 (43.35)
1992/93	25456.1	4403.2 (17.30)	5132.2 (20.17)	4901.5 (19.25)	11019.2 (43.28)
1993/94	30631.2	5216.3 (17.30)	4732.2 (14.45)	5691.5 (18.59)	14991.2 (48.94)
1994/95	32057.8	6392.5 (19.94)	4122.2 (12.26)	6076.4 (18.96)	15466.7 (48.24)
1995/96	34241.9	7142.5 (20.85)	3672.2 (10.72)	7376.5 (21.54)	16050.7 (46.80)
1996/97	35890.9	8092.5 (22.54)	3042.2 (8.48)	8736.5 (24.34)	16019.7 (44.63)
1997/98	38406.9	9182.5 (23.90)	3302.2 (8.60)	9886.4 (25.75)	16035.6 (41.75)
1998/99	49669.7	17586.9 (35.40)	3872.0 (7.79)	10426.4 (21.0)	17784.1 (35.80)
1999/2000	54357.0	21027.0 (38.68)	4262.2 (7.84)	11526.5 (21.20)	15741.3 (32.27)
2000/01	60043.8	27610.8 (45.99)	5962.2 (9.92)	12476.4 (20.77)	13994.3 (22.30)
2001/02	73620.7	41106.5 (55.83)	11090.7 (15.06)	11536.1 (15.77)	9259.3 (12.57)
2002/03	84645.3	48860.7 (57.72)	16059.2 (18.97)	9629.8 (11.37)	9164.5 (10.82)
2003/04	86133.7	49429.6 (57.38)	17549.2 (20.37)	9029.8 (10.48)	8946.2 (10.30)
2004/05	87564.2	51383.1 (58.68)	19999.2 (22.83)	6576.7 (7.51)	8176.33 (9.33)
2005/06	94710.6	62970.3 (66.48)	17959.2 (18.96)	3876.8 (4.1)	8225.6 (8.68 )
2006/07	102365.1	74445.3 (72.72)	19177.2 (18.73)	1516.9 (1.48)	7225.7 (7.07)
2007/08	108214.0	77246.8 (71.38)	21673.4 (20.02)	1725.6 (1.59)	7568.2 (6.99)
2008/09	122092.3	86647.4 (70.97)	24890.7 (20.39)	2226.3 (1.82)	8327.9 (6.82)
2009/10	142859.7	102043.7 (71.42)	35519.4 24.86	169.7 (0.11)	5126.9 (3.58)
2010/11	180396.02	126847.0 (68.4)	47194.0 (23.16)	1068.0 (5.9)	5287.0 (2.9)
Average Annual Growth Rate					

## APPENDIX I

### Structure of External Debt in terms of Disbursement by Major Sources

Rs. in million

<b>Fiscal Year</b>	<b>Total External Loan (1)</b>	<b>Bilateral Loan (2)</b>	<b>Multilateral Loan (3)</b>	<b>(2) as a Percent of (1)</b>	<b>(3) as a Percent of (1)</b>
1991/92	6816.9	2389.8	3879.6	35.0	57.0
1992/93	6920.9	1307.8	4654.1	18.9	67.2
1993/94	9163.6	582.9	8580.7	6.4	93.6
1994/95	7312.3	717.3	6595.0	9.8	89.8
1995/96	9463.9	460.0	9003.9	4.9	95.1
1996/97	9043.6	850.7	8192.9	9.4	90.6
1997/98	11054.6	1314.5	9740.0	11.9	88.1
1998/99	11852.4	584.0	11268.4	4.9	95.1
1999/2000	11812.2	757.9	11054.3	6.4	93.6
2000/01	12044.0	586.7	11457.3	4.9	95.1
2001/02	7698.7	87.0	7611.6	1.1	98.9
2002/03	4546.4	657.2	3889.2	14.5	85.5
2003/04	7629.0	66.0	7563.0	0.9	99.1
2004/05	9266.1	126.5	9139.6	1.3	98.6
2005/06	8214.4	40.6	8173.7	0.4	99.6
2006/07	10053.5	1048.9	9004.6	10.43	89.57
2007/08	8979.9	632.1	8347.8	7.00	93.00
2008/09	10405.4	740.0	8347.8	7.12	92.88
2009/10	76733.4	31467.7	45265.7	41.00	59.00
2010/11	71957.5	25006.6	46950.9	34.75	65.25



## APPENDIX J

### Public Borrowing by Sectors

Rs. in million

<b>Fiscal Year</b>	<b>Total Debt</b>	<b>External Debt</b>	<b>Agriculture Irrigation and Forestry</b>	<b>Transportation, Power and Communication</b>	<b>Industry and Commerce</b>	<b>Social Service</b>
1991/92	8895.7	6816.9	1632.1 (23.94)	2010.1 (29.49)	2143.7 (31.45)	483.5 (7.71)
1992/93	8540.9	6920.9	1465.4 (21.17)	3299.6 (47.68)	663.6 (9.58)	533.4 (7.71)
1993/94	10983.6	9163.6	4964.8 (54.18)	3273.1 (35.72)	234.5 (2.56)	751.1 (8.20)
1994/95	9212.3	7312.3	2429.8 (33.23)	3103.6 (42.44)	359.3 (4.91)	1419.6 (19.41)
1995/96	11663.9	9463.9	3054.4 (32.27)	4461.4 (47.14)	3.5 (0.04)	1784.3 (18.85)
1996/97	12043.6	9043.6	2201.6 (24.34)	5131.15 (56.74)	17.5 (0.19)	1693 (18.72)
1997/98	14454.6	11054.6	2543.5 (23.01)	5813 (52.14)	167.9 (1.52)	2530.1 (22.89)
1998/99	16562.4	11852.4	2925.1 (24.81)	6179.7 (52.14)	391.6 (3.30)	2312.3 (19.51)
1999/2000	17312.2	11812.2	2693.4 (21.02)	6039.5 (47.14)	283.8 (2.22)	2795.1 (21.82)
2000/01	19044.0	12044.0	3242 (26.92)	6012.6 (49.92)	0 (0.00)	2789.4 (23.11)
2001/02	15698.7	7698.7	2560.8 (33.26)	3593.3 (46.67)	49.5 (0.64)	1495 (19.42)
2002/03	13426.8	4546.4	1488.9 (32.75)	1080.5 (23.77)	28.3 (0.62)	1738.4 (38.24)
2003/04	13236.8	7629.0	1488.9 (32.75)	1080.5 (23.77)	28.3 (0.62)	1738.4 (38.24)
2004/05	18204.2	9266.1	1214.7 (13.11)	2836.8 (30.61)	0.1 (0.00)	5212.5 (56.25)
2005/06	20048.5	8214.4	971.9 (11.63)	2669.5 (32.50)	0 (0.00)	3901.4 (47.50)
2006/07	17642.6	7221.5	1516.6 (21.0)	2435.5 (33.72)	73.0 (0.41)	3196.4 (44.26)
2007/08	21382.4	8339.0	2019.7 (24.21)	2078 (24.91)	15.0 (0.17)	4226.3 (50.68)
2008/09	31486.6	12857.9	2276.3 (17.70)	3264.4 (25.38)	21.0 (0.16)	5461.8 (42.48)
2009/10	41406.7	13492.7	5273.3 (39.08)	3525.0 (26.13)	756.7 (5.60)	3924.4 (29.08)
2010/11	42644.2	15642.6	3545.8 (22.66)	3966.1 (25.35)	517.1 (3.30)	4062.9 (25.97)

## APPENDIX K

### Outstanding Debt and Its Share in GDP

Rs. in million

Fiscal Year	Total Outstanding Debt (TOD)	External Outstanding Debt (EOD)	Internal Outstanding Debt (IOD)	GDP	Share and as a Percentage of GDP		
					Total Debt	External Debt	Internal Debt
1991/92	94158.8	70923.9	23234.9	144933	65.0	48.9	16.0
1992/93	112876.9	87420.8	25456.1	165350	68.3	52.9	15.4
1993/94	132598.0	101966.8	30631.2	191596	69.2	53.2	16.0
1994/95	145058.7	113000.9	32057.8	209976	69.1	53.8	15.3
1995/96	162286.3	128044.4	34241.9	239388	67.8	55.5	14.3
1996/97	167977.7	132086.8	35890.9	269570	62.3	49.0	13.3
1997/98	199614.7	161208.0	38406.7	289798	68.9	55.6	13.3
1998/99	219135.5	169465.9	49669.7	330018	66.4	51.4	15.1
1999/2000	261594.2	190691.2	54357.0	366251	66.9	52.1	14.8
2000/01	264474.4	200404.6	60043.8	394052	66.1	50.9	15.2
2001/02	293746.3	220125.6	73620.7	406138	72.3	54.2	18.1
2002/03	308078.5	223433.2	84645.3	437546	70.4	51.1	19.3
2003/04	318913.0	232779.3	86133.7	474919	67.2	49.0	18.1
2004/05	307206.1	219641.9	87564.2	508651	60.4	43.2	17.2
2005/06	329516.2	234805.6	94710.6	557869	59.1	42.0	17.0
2006/07	315932.8	216628.9	99303.9	654084	48.3	33.1	15.2
2007/08	361204.5	249965.4	111239.1	727827	49.6	34.3	15.3
2008/09	394481.1	273607.3	120873.8	815663	48.4	33.5	14.9
2009/10	395984.9	253125.2	142859.7	991316	39.94	25.53	14.41
2010/11	443759.3	259551.8	184207.5	1246243	35.60	20.82	14.78

## APPENDIX L

### Share of External and Internal Debt Servicing in Total Debt Servicing

Rs. in million

<b>Fiscal Year</b>	<b>Total Debt Servicing (TDS)</b>	<b>Internal Debt Servicing (IDS)</b>	<b>External Debt Servicing (IDS)</b>	<b>IDS as a Percentage of TDS</b>	<b>EDS as a Percentage of TDS</b>
1991/92	3797.1	2132.2	1664.9	56.2	43.8
1992/93	4560.5	2428.6	2131.9	53.3	46.7
1993/94	4855.1	2366.4	2488.9	48.7	51.3
1994/95	6083.3	3098.6	2984.7	50.9	49.1
1995/96	6715.4	3421.1	3294.3	50.9	49.1
1996/97	7527.2	4177.8	3349.4	55.5	44.5
1997/98	7682.8	3481.6	4201.2	45.3	54.7
1998/99	8723.0	3977.5	4745.5	45.6	54.4
1999/2000	10032.8	4711.4	5321.4	47.0	53.0
2000/01	10388.4	4187.0	6201.4	40.3	59.7
2001/02	12205.2	5637.7	6567.5	46.2	53.8
2002/03	16181.3	8662.1	7579.2	53.5	46.5
2003/04	17338.8	9429.9	7908.9	54.4	45.6
2004/05	19757.3	11651.4	8099.9	59.0	41.6
2005/06	20423.5	11272.7	9150.8	55.2	44.8
2006/07	22671.9	12631.5	10040.4	55.7	44.3
2007/08	25856.2	13974.2	11882.0	54.0	46.0
2008/09	27952.3	15632.1	12320.2	56.0	44.0
2009/10	30246.2	17341.2	12905.0	57.3	42.7
2010/11	34325.9	19601.3	14724.6	57.11	42.89
Average Annual Growth Rate				52.0	48.0

## APPENDIX M

### Share of Internal Debt Servicing in Total Revenue Regular Expenditure and GDP

Rs. in million

<b>Fiscal Year</b>	<b>Total Revenue (TR)</b>	<b>Regular Expenditure (RE)</b>	<b>GDP</b>	<b>Internal Debt Servicing (IDS)</b>	<b>IDS as a % of TR</b>	<b>IDS as a % of RE</b>	<b>IDS as a % of GDP</b>
1991/92	13512.7	9905.4	144933	2132.2	15.8	21.5	1.5
1992/93	15148.8	11484.1	165350	2428.6	16.0	21.1	1.5
1993/94	19580.8	12409.2	191596	2366.4	12.1	19.1	1.2
1994/95	24575.2	19267.1	209976	3098.6	12.6	16.1	1.5
1995/96	27893.1	21561.8	239388	3421.1	12.3	15.9	1.4
1996/97	30373.5	24181.1	269570	4177.8	13.8	17.3	1.5
1997/98	32937.9	27174.4	289798	3481.6	10.6	12.8	1.2
1998/99	37251.3	31944.2	330018	3977.5	10.7	12.5	1.2
1999/2000	42893.8	35579.3	366251	4711.4	11.0	13.2	1.3
2000/01	48893.6	45839.3	394052	4187.0	8.6	9.1	1.1
2001/02	50445.5	48863.9	406138	5637.7	11.2	11.5	1.4
2002/03	56229.8	52090.5	437546	8662.1	15.4	16.6	2.0
2003/04	62331.0	55552.1	474919	9429.9	15.1	17.0	2.0
2004/05	70122.7	61686.4	508651	11651.4	16.6	18.9	2.0
2005/06	72282.1	67017.8	557869	11272.7	15.6	16.8	2.0
2006/07	86686.0	77122.4	654084	12631.5	14.6	16.4	1.9
2007/08	104939.3	91446.8	727827	13974.2	13.3	15.3	1.9
2008/09	138372.0	128516.5	815663	15632.1	11.3	12.2	1.9
2009/10	179940.3	151244.7	991316	17341.2	9.6	11.5	1.7
2010/11	199819	195363	1246243	19601.3	9.8	10.33	1.6
Average Annual Growth Rate					13.6	15.3	1.6

## APPENDIX N

### Development Expenditure, Outstanding Public Debt and Total Debt Servicing

Rs. in million

Fiscal Year	Total outstanding Debt (TOD)	Total Debt Servicing (TDS)	Development Expenditure (DE)	TOD as a Percentage of DE	TDS as a Percentage of DE
1991/92	94158.8	3797.1	16512.8	570.2	23.0
1992/93	112876.9	4560.5	13413.6	581.4	23.5
1993/94	132598.0	4855.1	21188.2	625.8	22.3
1994/95	145058.7	6083.3	19794.9	732.8	30.7
1995/96	162286.3	6715.4	24980.5	649.7	26.9
1996/97	167977.7	7527.2	26542.5	632.9	28.4
1997/98	199614.7	7682.8	28943.9	689.7	26.5
1998/99	219135.5	8723.0	22992.1	953.1	37.9
1999/2000	245048.2	10032.8	25480.7	961.7	39.4
2000/01	264474.4	10388.4	28307.2	920.1	36.7
2001/02	293746.3	12205.2	24773.4	1185.7	49.3
2002/03	308078.5	16181.3	22356.1	1378.1	72.4
2003/04	318913.0	17338.8	23095.6	1380.8	75.1
2004/05	307206.1	19757.3	27340.7	1123.6	72.2
2005/06	329516.2	20423.5	29606.6	1113.0	69.0
2006/07	315932.8	22671.9	39709.9	795.6	57.1
2007/08	361204.5	25856.2	44386.5	813.8	58.3
2008/09	394481.1	27952.3	51310.1	768.8	54.5
2009/10	395984.9	30246.2	73088.9	541.8	41.4
2010/11	443759.3	34325.9	90237.7	491.8	38.0

## APPENDIX O

### Annual Internal Debt Servicing as Percentage of Annual Internal Borrowing

Rs. in Million

<b>Fiscal Year</b>	<b>Internal Debt (ID)</b>	<b>Internal Debt Servicing (IDS)</b>	<b>IDS as a Percentage of ID</b>
1991/92	2078.8	2132.2	102.6
1992/93	1620.0	2428.6	149.9
1993/94	1820.0	2366.4	130.0
1994/95	1900.0	3098.6	163.1
1995/96	2200.0	3421.1	155.5
1996/97	3000.0	4177.8	139.3
1997/98	3400.0	3481.6	102.4
1998/99	4710.0	3977.5	84.4
1999/2000	5500.0	4711.4	85.7
2000/01	7000.0	4187.0	59.8
2001/02	8000.0	5637.7	70.5
2002/03	8880.0	8662.1	97.5
2003/04	5607.0	9429.9	168.2
2004/05	8938.1	11651.4	130.4
2005/06	11834.2	11272.7	95.3
2006/07	10421.1	12631.5	121.2
2007/08	12643.4	13974.2	110.5
2008/09	18628.7	15632.1	83.9
2009/10	27914.0	17341.2	62.1
2010/11	27019.6	19601.3	72.5
Average Annual Growth Rate			109.3

## APPENDIX P

### Annual External Debt Servicing as Percentage of Annual External Borrowing

Rs. in Million

<b>Fiscal Year</b>	<b>External Debt (ED)</b>	<b>External Debt Servicing (EDS)</b>	<b>EDS as a Percentage of ED</b>
1991/92	6816.9	1664.9	24.4
1992/93	6920.9	2131.9	30.8
1993/94	9163.6	2488.9	27.2
1994/95	7312.3	2984.7	40.8
1995/96	9463.9	3294.3	34.8
1996/97	9043.6	3349.4	37.0
1997/98	11054.4	4201.2	38.0
1998/99	11852.4	4745.5	40.0
1999/2000	11812.2	5321.4	45.1
2000/01	12044.0	6201.4	51.5
2001/02	7698.7	6567.5	85.3
2002/03	4546.4	7519.2	165.4
2003/04	7629.0	7908.9	103.7
2004/05	9266.1	8099.9	87.4
2005/06	8214.4	9150.8	111.4
2006/07	7221.5	10040.4	139.0
2007/08	8739.0	11882.0	136.0
2008/09	12857.9	12320.2	95.8
2009/10	13492.7	12905.0	95.6
2010/11	15642.6	14724.6	94.1
Average Annual Growth Rate			73.7

## APPENDIX Q

### External Debt Flow and it's Servicing

Rs. in Million

<b>Fiscal Year</b>	<b>External Debt (ED)</b>	<b>External Debt Servicing (EDS)</b>	<b>EDS as a Percentage of ED</b>
1991/92	6816.9	1664.9	24.4
1992/93	6920.9	2131.9	30.8
1993/94	9163.6	2488.9	27.2
1994/95	7312.3	2984.7	40.8
1995/96	9463.9	3294.3	34.8
1996/97	9043.6	3349.4	37.0
1997/98	11054.4	4201.2	38.0
1998/99	11852.4	4745.5	40.0
1999/2000	11812.2	5321.4	45.1
2000/01	12044.0	6201.4	51.5
2001/02	7698.7	6567.5	85.3
2002/03	4546.4	7519.2	165.4
2003/04	7629.0	7908.9	103.7
2004/05	9266.1	8099.9	87.4
2005/06	8214.4	9150.8	111.4
2006/07	7221.5	10040.4	139.0
2007/08	8739.0	11882.0	136.0
2008/09	12857.9	12320.2	95.8
2009/10	13492.7	12905.0	95.6
2010/11	15642.6	14724.6	94.1
Average Annual Growth Rate			73.7



## APPENDIX R

### External Debt Servicing, Export Earning and GDP Ratio

Rs. in Million

<b>Fiscal Year</b>	<b>GDP</b>	<b>External Debt Servicing (EDS)</b>	<b>Export</b>	<b>EDS as a Percentage of GDP</b>	<b>EDS as a percentage of Export</b>
1991/92	144933	1664.9	13706.5	1.1	12.1
1992/93	165350	2131.9	17266.5	1.3	16.1
1993/94	191596	2488.9	19293.5	1.3	12.9
1994/95	209976	2984.7	17639.2	1.4	16.9
1995/96	239388	3294.3	19881.1	1.4	16.6
1996/97	269570	3349.4	22636.5	1.2	14.8
1997/98	289798	4201.2	27513.5	1.4	15.3
1998/99	330018	4745.5	35676.3	1.4	13.3
1999/2000	366251	5321.4	49822.7	1.5	10.7
2000/01	394052	6201.4	55654.1	1.6	11.1
2001/02	406138	6567.5	46944.8	1.6	14.0
2002/03	437546	7579.2	49930.6	1.7	15.1
2003/04	474919	7908.9	53910.7	1.7	14.7
2004/05	508651	8099.9	58705.7	1.6	13.8
2005/06	557869	9150.8	60234.1	1.6	15.2
2006/07	654084	10040.4	59383.1	1.5	16.9
2007/08	727827	11882.0	59266.5	1.6	20.0
2008/09	815663	12320.2	67247.1	1.5	18.3
2009/10	991316	12905.0	61126.8	1.3	21.1
2010/11	1246243	14724.6	64338.5	1.2	22.8
Average Annual Growth Rate				1.4	15.5

## APPENDIX S

### Ratio of External Outstanding Debt and Import Payment

Rs. in Million

<b>Fiscal Year</b>	<b>External Outstanding Debt (EOD)</b>	<b>Import</b>	<b>Import as a Percentage of EOD</b>
1991/92	70923.9	31940.0	45.0
1992/93	87420.8	39205.6	44.8
1993/94	101966.8	51570.8	50.6
1994/95	113000.9	63679.5	56.4
1995/96	128044.4	74454.5	58.1
1996/97	132086.8	93553.4	70.8
1997/98	161208.0	89002.0	55.2
1998/99	169465.9	87525.3	51.6
1999/2000	190691.2	108494.9	56.9
2000/01	200404.6	115687.2	57.7
2001/02	220125.6	107389.0	48.8
2002/03	223433.2	124352.1	55.7
2003/04	232779.3	136277.1	58.5
2004/05	219641.9	149473.6	68.1
2005/06	234805.6	173780.3	74.0
2006/07	216628.9	194694.6	89.8
2007/08	249965.4	221937.7	88.8
2008/09	273607.3	284571.0	104.0
2009/10	253125.2	378795.6	149.6
2010/11	259551.8	396175.5	152.6
Average Annual Growth Rate			71.7

## BIBLIOGRAPHY

- A.C Pigou (1960). *A Study in Public Finance*. Macmillan & Co. London.
- Acharya, K.P. (1998). *Burden of Public Debt in Nepal*. Debt Trap and Its Management in Nepal, NEFAS, Kathmandu.
- Adhikari, Urmila (1996). *Foreign Debt Servicing: A Case Study*. Rajaswa, Revenue Administration Training Center, Vol-2, HMG/N.
- Adhikari, Prabhat (2005). *Public Debt in Nepal*. M.A. Thesis, P.N. Campus, Pokhara, Nepal.
- Alamgir, M. and Songsup R.A. (2005). *Nepal: Public Debt Sustainability Analysis*. NRM Working Paper No. 5 Asian Development Bank.
- Budget Speech: Various Speeches, Ministry of Finance, Government of Nepal  
CBS (2011). *Statistical Pocket Book*, Central Bureau of Statistical. Kathmandu, Nepal.
- Dahal M.K. (1993). *Future of Nepalese Economy*. NEFAS, Kathmandu Nepal.
- Dahal M.K. (1996). *Social Economy and National Development: Lesson from Experience*. Nepal Foundation for Advanced Studies (NEFAS) and Fridrich Ebert Shifting (FES).
- Domar, E.D. (1944). *The Burden of the Debt and National Income*. American Economics Review, XXXIV, December.
- Economic Survey Various Issues, Ministry of Finance, Government of Nepal.
- Economic Survey F.Y. (2009/10), Kathmandu.
- Economic Survey F.Y. (2010/11), Kathmandu.
- Economic Survey F.Y. (2011/12), Kathmandu.

- Roode, Richard (1984). *Government Finance in Development Countries*. Tata McGraw Hill Publishing House Company Ltd. New Delhi, India.
- Gurley, J.G. and Shaw I.S. (1995). *Financial Aspects of Economic Development*. The American Review (XIV).
- Guru-Gharana K.K. (1996). *The Role of Foreign Aid in Economic Development and Poverty Alleviation*. Journal of Public Finance and Development, (Rajaswa) Vol. 2, RTC, HMG/N.
- Gyawali, K. and Bajracharya, B.B. (2004). *Public Debt Management in Nepal*. A Journal of Public Finance and Administration, RAJASWA, RATC, Lalitpur, Kathmandu.
- Harris, S.E. (1974). *The National Debt and the New Economics*. McGraw Hill Book Co. New York.
- Higgins, B. (1959). *Economic Development: Principles, Problems and Policies*, New York.
- Joshi, Mahes (R. (1982). *Structure of Public Debt in Nepal*. M.A. Thesis, T.U. Kirtipur, Kathmandu, Nepal.
- Kaldor, N. (1964). *Essay and Economic Policy*, Vol. 1, Gerald Duckworth and Co. Ltd. London.
- Khatiwada, Y.R. (1998). *Public Debt Management and Macro Economic Stability*, Debt Trap and its Management, NEFAS, Kathmandu.
- Klein Thomas M. and Verbeek J. (1995). *External Debt Management an Introduction*. World Bank Technical Paper Number 245, The World Bank, Washington D.C.
- Koirala, L.B. (2002). *Effective Public Debt Management in Nepalese Perspective*. RAJASWA, A Journal of Public Finance and Administration, year 23, Lalitpur, Kathmandu.

- Koirala, Laxmi B. (2002). *Effective Public Debt Management, Journal of Public Finance and Development*. (Rajaswa). Vol.-2, RTC, HMG/N.
- Kunwar, Keshab B. (2000). *Government Borrowing System and Practice in Nepal*. M.A. Thesis, T.U. Kirtipur, Nepal.
- Lakhi, R.K. (1990). *The Economic of Development and Planning*. Kalyani Publisher, Ludiyana, (U.P.) India.
- Learner, A.P. (1955). *Economic of Employment*. Oxford University Press, London.
- Lekhi R.K. (2001). *Public Finance*. Kalyani Publisher. New Delhi, India.
- Munal , Nadim (1992). *Macro Economics Adjustment: Policy Instruments and Issues*. IMF Institute, Washington, USA.
- Musgrave, R.A. (1959). *The Theory of Public Finance*. McGraw-Hill Book Co. New York.
- Nepal Rastra Bank, (2005). *Fifty Years of Nepal Rastra Bank*. NRB. Kathmandu, Nepal.
- Pant, Deepak R. (2008). *Trend and Structure of Public Debt in Nepal*. M.A. Thesis, T.U. Kirtipur, Kathmandu, Nepal.
- Pigou, A.C. (1949). *A Study in Public Finance*, McMillan and Co. London.
- RATC (1996). *Revenue Administration Training Centre, RAJASWA, Vol-2*. Lalitpur, Nepal.
- Samuelson, P.A. (1964). *Economic and Introductory Analysis*, International Student, Edition. Tokyo.
- Sharma, G.N. (1998). *The Growing Fiscal Imbalance in Nepal Are We Really Falling in to the Debt-Trap*. Debt Trap and its Management. (Ed) Ltd. Kathmandu, Nepal.

- Sing, S.K. (1982). *Public Finance in Theory and Practice*. S. Chand and Company Ltd. Ram Nagar, New Delhi.
- Singh, R.D. (1983). *A Study on the Impact of Internal Borrowing in Nepal*. Centre for Economic Development and Administration, Tribhuvan University, Kirtipur, Kathmandu.
- Thapa, Kunja Raj (2010). "*Forth Coming Budget*": *Economic Literature*. Vol IX: Department of Economic, Tribhuvan University, Prithvi Narayan Campus, Pokhara Nepal.
- UI Haq, Mahbub (1999). *The Human Development in South Asia*, Oxford University Press, London.
- Upadhaya, K.P. (1985). *External Debt and Debt Servicing in Nepal*. Centre for Economic Development and Administration. Tribhuvan University, Kirtipur, Kathmandu, Nepal.
- Wagle, Gajendra (1999). *An Analysis of Public Debt Situation in Nepal*. M.A. Thesis, T.U. Kirtipur, Kathmandu, Nepal.
- World Bank (1980). *A Conceptual Approach to Analysis of External Debt of the Development Countries*. World Bank Staff Working Paper No. 421 October.
- World Bank (2005). *World Annual Report*. World Bank Publication.