

**PUBLIC DEBT IN NEPAL: A STUDY ON ITS TREND AND
PATTERN**

A Thesis

Submitted to

the Central Department of Economics

Faculty of Humanities and Social Sciences

Tribhuvan University, Kirtipur, Kathmandu, Nepal

in Partial Fulfillment of the Requirements

for the Degree of

MASTER OF ARTS

In

ECONOMICS

By:

YAGYA RAJ UPADHYAY

Roll no. : 281159/2067

Regd. no.: 6-3-28-12-2008

Central Department of Economics

Tribhuvan University

Kirtipur, Kathmandu, Nepal

2012

LETTER OF RECOMMENDATION

Date: 2069/06/17

This thesis entitled “**Public Debt in Nepal: A Study on its trend and pattern**” has been completed by Mr. Yagya Raj Upadhyay under my guidance and supervision. This thesis is the outcome of his own intensive and independent research work and has been prepared in the form as required by the Central Department of Economics. Therefore, I recommend it for examination by the thesis committee of the degree of Master of Arts in Economics.

.....
Prof. Dr. Sharad Kumar Sharma
Central Department of Economics
Tribhuvan University

Date: 2069/06/24

APPROVAL SHEET

The Thesis entitled “**Public Debt in Nepal: A Study on its trend and pattern**” submitted by Mr.Yagya Raj Upadhyay has been accepted as a partial fulfillment of the requirements for the Degree of Master of Arts in Economics.

Thesis Committee

Chairman

Dr. Ram Prasad Gyanwaly

External Examiner

Prof. Dr. Shohan Kumar Karna

Thesis Supervisor

Prof. Dr. Sharad Kumar Sharma

ACKNOWLEDGEMENT

This thesis on **Public Debt in Nepal: A Study on its trend and pattern** would have never been possible had **Prof. Dr. Sharad Kumar Sharma** my Supervisor not helped with a great inspiration and guidance, my veneration to him.

I would like to express my gratefulness to **Dr. Ram Prasad Gyanwaly** Head of Central Department of Economics, who provided me the opportunity to write this thesis.

My veneration goes to all my respected teachers and personnel of CEDECON who conveyed their timely and significant suggestions for this thesis both at formal and informal meetings. I would also like to appreciate to different organizations, institutions and individuals who helped me in this matter.

I would like to express my gratitude and appreciation to my friends and family for their genuine support to complete this thesis.

Despite my utmost care and efforts, I bear the full responsibility for any errors and discrepancies that might have occurred in this study report.

.....

Yagya raj Upadhyay

TABLE OF CONTENTS

	Page No.
Recommendation Letter	i
Approval Letter	ii
Acknowledgements	iii
Table of Contents	iv
List of Tables	v
List of Figures	vi
List of Acronyms	vii
CHAPTER ONE: INTRODUCTION	1-7
1.1 General Background	1
1.2 Statement of the Problem	3
1.3 Objectives of the Study	5
1.4 Significance of the Study	6
1.5 Limitation of the Study	7
1.6 Organization of the Study	7
CHAPTER TWO: LITERATURE REVIEW	8-24
2.1 Conceptual Review	8
2.2 Concept of Deficit Budget	8
2.3 Classical View on Budget and Public Debt	9
2.4 Keynes View on public Budget and Debt	9
2.5 Modern View on Public Debt	9
2.6 Sources of Borrowing	10
2.7 Review of Related Studies	13
2.7.1 Theoretical Concept/International Context	13
2.7.2 Nepalese Context	21
CHAPTER THREE: RESEARCH METHODOLOGY	25-29

3.1 Research Design	25
3.2 Sources of Data	25
3.3 Data processing	25
3.4 Description of the Variables	26
3.5 Regression Equation	27
3.6. Test of Significance of the Parameter Estimates	28
3.6.1. t-test	28
3.6.2. F-test	28
CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION	30-59
4.0 Introduction	30
4.1 Resource Gap in Nepalese Economy	32
4.2 Growth Trend in Government Debt	35
4.3 Pattern of Internal Net Outstanding Debt in Nepal	37
4.4 Pattern of External Debt in Nepal	41
4.5 Net Outstanding Debt	44
4.6 Public Debt as Percentage of Fiscal Deficit	46
4.7 Share of External and Internal Debt Servicing as Percentage of GDP	47
4.8 Trend of Regular Expenditure and Debt Servicing	49
4.9 Trend of Foreign Aid in Development Planning	51
4.10 Situation of Debt Trap in Nepal	53
4.11 Relationship between GDP and Public Debt in Nepal	55
CHAPTER FIVE: PROBLEMS & PROSPECTS OF PUBLIC DEBT IN UNDERDEVELOPED COUNTRIES	60-62
5.1 Problems of Public Debt in Underdeveloped Countries	60
5.2 Prospects of Public Debt in Underdeveloped Countries	61

CHAPTER SIX: SUMMARY, FINDINGS, CONCLUSION AND RECOMMENDATIONS	63-68
6.1 Summary	63
6.2 Major Findings	64
6.3 Conclusion	66
6.4 Recommendations	67
APPENDIX	69-71
REFERENCE	72-74

LIST OF TABLES

Table no.	Title	Page No.
Table 4.1	Different Scenario of Resource Gap (1990/91 to 2010/11)	33
Table 4.2	Trends in Government Debt and Annual Growth Rate	36
Table 4.3	Ownership Pattern of Government Bond and Treasury Bills	39
Table 4.4	Pattern of External debt in Terms of Disbursement by Major Sources	42
Table 4.5	Net Outstanding Public Debt to GDP Ratio	44
Table 4.6	Percentage of Debt in Fiscal Deficit	46
Table 4.7	Internal and External Debt Servicing in Nepal	48
Table 4.8	Regular Expenditure and Debt Servicing	50
Table 4.9	Share of Foreign Aid in Development Expenses in Economic Plans	52

LIST OF FIGURES

Figure no.	Title	page no.
Figure 4.1	Different Scenario of Resource Gap in Nepal	35
Figure 4.2	Trend in Government Debt in Nepal	37
Figure 4.3	Pattern of Internal Outstanding Debt in Nepal	40
Figure 4.4	Pattern of External Debt in Terms of Disbursement by Major Sources	43
Figure 4.5	Pattern of Net Outstanding Debt in Nepal	45
Figure 4.6	Pattern of Public Debt and Fiscal Deficit	47
Figure 4.7	Pattern of Internal and External Debt Servicing	49
Figure 4.8	Patterns of Regular Expenditure and Debt Servicing	51
Figure 4.9	Pattern of Development Expenditure and Foreign Aid	53

ACRONYMS

ADB	:	Asian Development Bank
BOP	:	Balance of Payment
CEDECON	:	Central Department of Economics
ED	:	External Debt
ID	:	Internal Debt
FY	:	Fiscal Year
GDP	:	Gross Domestic Product
GON	:	Government of Nepal
IMF	:	International Monetary Fund
MOF	:	Ministry of Finance
NRB	:	Nepal Rastra Bank
NPC	:	National Planning Commission
TD	:	Total Debt
TDS	:	Total Debt Servicing
TED	:	Total External Debt
UNDP	:	United Nation of Development Program
WB	:	World Bank
WHO	:	World Health Organization