# RELATIONSHIP BETWEEN PUBLIC EXPENDITURE AND ECONOMIC GROWTH IN NEPAL

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## LETTER OF RECOMMENDATION

This thesis entitled **Public Expenditure and Economic Growth in Nepal** has been prepared by Mahesh Acharya under my supervision. I hereby recommend this thesis for examination by the Thesis Committee as a partial fulfilment of the requirements for the Degree of Master Degree in Economics.

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## APPROVAL LETTER

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# ABSTRACT

The debate over the role of the government in the economy has lasted for many decades, dating back to thetimes of the predominantly laissez-faire and classicaleconomy policies. Role of public expenditure has shown mixed result around the world.

The general objective of the thesis is to find out the relationship between the government expenditure and economic growth in case of Nepal. Other objectives of the thesis are to find out the trend of the public expenditure and the economic growth of the Nepal from 1975 to 2015 and to find out the causality between the public expenditure and economic growth in Nepal.

ARDL techniques of cointegration and ECM transformation of the ARDL has been used for the long run and short analysis of the relationship between the public expenditure and economic growth. CUSUM and CUSUM square has been used to check the stability of the coefficient. Trend of public expenditure and economic growth has been analysed through the help of the descriptive analysis. Granger Causality test is used to check the causality between the variables.

It found that both the public expenditure and economic growth has increasing trend over the study period. From the results of ARDL and ECM model it is concluded that there is positive and significant relationship between the public expenditure and economic growth in Nepal both in short run and long run. It is found that the government expenditure, annual rainfall, openness of trade are the short run determinants of the GDP; rainfall do not affect the GDP in the long run and interest rate is a factor that effects GDP in long run but not in the short run.

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## ABBREVIATIONS/ACRONYMS

| | |
|---|---|
| ADF | Augmented Dickey Fuller |
| AIC | Akaike Information Criterion |
| ARDL | Autoregressive Distributed Lag |
| CPI | Consumer Index |
| CUSUM | Cumulative Sum |
| CUSUMQ | Cumulative Sum of Square |
| ECM | Error Correction Model |
| ECT | Error Correction Term |
| FY | Fiscal Year |
| GDP | Gross Domestic Product |
| GE | Government Expenditure |
| GEGR | Government Expenditure GDP Ratio |
| GERR | Government Expenditure Government Revenue Ratio |
| GGR | GDP Growth Rate |
| GR | Government Revenue |
| GRGR | Government Revenue GDP Ratio |
| OT | Openness of Trade |
| RF | Annual Average Rain Fall |
| RGDP | Real Gross Domestic Product |
| RGE | Real Government Expenditure |
| RGR | Real Government Revenue |