# PUBLIC DEBT IN NEPAL: A STUDY OF ITS STRUCTURE, TREND AND BURDEN

A Thesis Submitted to the Central Department of Economics Tribhuvan University, Kirtipur, Kathmandu, Nepal in Partial Fulfillment of the Requirements for the Degree of MASTER OF ARTS IN ECONOMICS

> Submitted By Khem Bahadur Kunwar Exam Roll No.: 116/068 T.U. Regd. No.: 6-2-37-156-2008

Central Department of Economics Tribhuvan University Kirtipur, Kathmandu, Nepal February 2018

### LETTER OF RECOMMENDATION

This thesis entitled **Public Debt in Nepal: A Study of Its Structure, Trend and Burden** has been completed by **Mr. Khem Bahadur Kunwar** under my supervision and guidance. I forward it with recommendation for approval.

Prof. Dr. R.K. Shah (Thesis Supervisor)

Date:

#### **APPROVAL SHEET**

The Thesis entitled **Public Debt in Nepal: A Study of Its Structure, Trend and Burden** submitted by **Mr. Khem Bahadur Kunwar** has been accepted as Partial Fulfillment of the Requirements for the Degree of Master of Arts in Economics.

**Thesis Committee** 

Prof. Dr. Kushum Shakya (Head of the Department)

.....

(External Examiner)

Prof. Dr. R.K. Shah (Thesis Supervisor)

Date:

#### ACKNOWLEDGEMENTS

I would like to thank **Prof. Dr. R. K. Shah** as a supervisor who helped with a great inspiration and guidance. I would like to express my gratefulness to **Prof. Dr. Kushum Shakya,** 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.

Khem Bahadur Kunwar

# TABLE OF CONTENTS

REC	OMMI	ENDATION LETTER	i
APP	ROVA	L LETTER	ii
ACK	NOWI	LEDGEMENTS	iii
TAB	LE OF	CONTENTS	iv
LIST	T OF TA	ABLES	vii
LIST	OF FI	GURES	viii
LIST	OF A	CRONYMS	ix
CHA	APTER	I: INTRODUCTION	1-5
1.1	Backg	round of the Study	1
1.2	Staten	nent of the Problem	2
1.3	Object	tives of the Study	3
1.4	Signif	icance of the Study	4
1.5	Limita	ations of the Study	4
1.6	Defini	tion of Terminologies	4
1.7	Organ	ization of the Study	5
CHA	APTER	II: REVIEW OF LITERATURE	6-23
2.1	Introd	uction	6
2.2	Theore	etical Context	7
	2.2.1	Classical View	7
	2.2.2	Keynesian View	8
	2.2.3	Post- Keynesian View	9
	2.2.4	Recent View	11
2.3	Empir	ical Review	14
	2.3.1	In Nepalese Context	14

	2.3.2 In International Context	19
2.4	Research Gap	22
CHA	APTER III: RESEARCH METHODOLOGY	24-25
3.1	Research Design	24
3.2	Nature and Sources of Data	24
3.3	Tools and Techniques of Data Analysis	24
3.4	Analysis and Presentation of Data	24
	3.4.1 Simple Linear Regression Model	25
CHA	APTER IV: ANALYSIS, PRESENTATION AND INTERPRETATIO	N
	<b>OF DATA</b>	26-56
4.1	Introduction	26
4.2	Public Borrowing and Deficit Financing	27
4.3	Resource Gap in Nepalese Economy	31
4.4	Public Debt for Financing Fiscal Deficit	35
4.5	Growth Trend in Public Debt	36
4.6	Pattern of Internal Net Outstanding Debt in Nepal	38
4.7	Pattern of External Debt in Nepal	40
4.8	Net Outstanding Debt	41
4.9	Public Debt as Percentage of Fiscal Deficit	42
4.10	Share of External and Internal Debt Servicing as Percentage of GDP	44
4.11	Trend of Regular Expenditure and Debt Servicing	46
4.12	Trend of Foreign Aid in Development Plan	48
4.13	Internal Debt Instruments of Nepalese Government	49
4.14	Situation of Debt Trap in Nepal	50
4.15	Burden of Public Debt in Nepal	52
4.16	Relation between GDP and Public Debt in Nepal	54

<b>CHAPTER V: SUMMARY OF FINDINGS, CONCLUSION AND</b>		
	RECOMMENDATIONS	57-62
5.1	Summary of Findings	57
5.2	Conclusion	60
5.3	Recommendations	61
REFERENCES 63-68		

### LIST OF TABLES

Table	Title	Page No.
Table 4.1	Different Scenario of Resource Gap	33
Table 4.2	Trend of Government Debt and Annual Growth Rate	37
Table 4.3	Ownership Pattern of Government Bond and Treasury Bills	39
Table 4.4	Pattern of External Debt in Terms of Disbursement by Majo	or
	Sources	40
Table 4.5	Net Outstanding Public Debt to GDP Ratio	41
Table 4.6	Percentage of Debt in Fiscal Deficit	43
Table 4.7	Internal and External Debt Servicing in Nepal	45
Table 4.8	Regular Expenditure and Debt Servicing	47
Table 4.9	Share of Foreign Aid in Development Expenditures in	
	Economic Plans	48

## LIST OF FIGURES

Figure	Title	Page No.
Figure 4.1	Different Scenario of Resource Gap	34
Figure 4.2	Trend of Government Debt and Annual Growth Rate	38
Figure 4.3	Percentage of Debt in Fiscal Deficit	44

## LIST OF ACRONYMS

ADB	Asian Development Bank
BoP	Balance of Payment
CBS	Central Bureau of Statistics
FY	Fiscal Year
GDP	Gross Domestic Product
GNI	Gross National Income
GNP	Gross National Product
GoN	Government of Nepal
IMF	International Monetary Fund
LDCs	Least- Developed Countries
MGs	Import of Goods
MIGA	Multilateral Insurance Guarantee Agency
MoF	Ministry of Finance
NEFAS	Nepal Foundation for Advanced Studies
NPC	National Planning Commission
NRB	Nepal Rastra Bank
SDR	Special Drawing Rights
UK	United Kingdom
USA	United States of America
USSR	Union of Soviet Socialist Republic
WHO	World Health Organization
WB	World Bank
XGs	Export of Goods