IMPACT OF DEFICIT BUDGET ON ECONOMIC GROWTH IN NEPAL: AN ARDL APPROACH TO BOUND TEST

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By

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RECOMMENDATION LETTER

This thesis entitled **Impact of Deficit Budget on Economic Growth in Nepal: An ARDL Approach to Bound Test** has been completed by **Mr Tilak Kshetri** under my guidance and supervision. Therefore, I recommend this thesis for examination by the thesis committee as partial fulfilment of the requirements for **the Degree** of **Master of Arts in Economics**.

.....

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APPROVAL SHEET

We clarify that this thesis entitled **Impact of Deficit Budget on Economic Growth in Nepal: An ARDL Approach to Bound Test** submitted by **Mr Tilak Kshetri** to the Central Department of Economics, Faculty of Humanities and Social Sciences, Tribhuvan University, in partial fulfilment of the requirements for the Degree of **Master of Arts** in **Economics** has been found satisfactory in scope and quality. Therefore, we accept this thesis as a part of the degree.

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DECLARATION

The thesis entitled **Impact of Deficit Budget on Economic Growth: An ARDL Approach to Bound Test** is conducted under the supervision of Shiva Raj Adhikari, PhD. Professor of Economics at Central Department of Economics, Tribhuvan University.

I declare that the information reported in this thesis is the result of my own work, except where due to reference is made. The thesis has not been accepted for any degree and is not concurrently submitted to any candidature for any other degree.

……

Tilak Kshetri

November 2020

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ABSTRACT

The thesis entitled **Impact of Budget Deficit on Economic Growth: An ARDL Approach to Bound Test** has based on descriptive and analytical research design with the main objective of to find the relationship between deficit budget and economic growth in Nepal. All the required information are collected from the secondary sources, particularly from the Ministry of Finance, GoN, and World Bank.

The researcher has employed the Gross domestic product as a dependent variable and the budget deficit as an independent variable whereas, current expenditure and gross private capital formation has been applied as a supportive variable. The researcher has found that the nominal and real gross domestic product, government recurrent and capital expenditure, budget deficit and gross private capital formation has an upward trend during the study period.

To find the empirical relationship between economic growth and deficit budget, the researcher has applied the ADF test to find the nature (stationary and non-stationary) of data and found the series has non-stationary. The researcher has employed the ARDL approach to bound test to identified the short-run and long-run relationship between underlying variables. The empirical analysis shows, there is a significant positive relationship between gross domestic product and government deficit budget in both the short-run and long-run. And there is also a significant positive relationship between gross domestic product and supportive variable in both the short-run and long-run except for gross private capital formation. Although, there is a significant positive relationship between gross domestic product and gross private capital formation in the long-run.

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ACRONYMS

AD	Aggregate Demand
ADF	Argument Dickey-Fuller
ADB	Asian Development Bank
ARDL	Autoregressive Distribution Lag Model
AIC	Akaike Information Criterion
SUSUM	Cumulative Sum
SUSUMSQ	Cumulative Sum of Square
D-W	Durbin-Watson
GDP	Gross Domestic Product
ECM	Error Correction Model
HQC	Hannan-Quinn Criterion
IMF	International Monetary Fund
KPSS	Kwiatkowski-Phillips-Schmidt-Shin
OLS	Ordinary Least Square
PP	Philips-Perron
RESET	Ramsey Regression Speciation Error Test
SIC	Schwarz Bayesian Criterion
VAR	Vector Auto Regression
VECM	Vector Error Correction Model