

**RELATIONSHIP BETWEEN INFLATION AND
ECONOMIC GROWTH
IN NEPAL**

A Thesis

Submitted to

Central Department of Economics

Faculty of Humanities and Social Sciences, Tribhuvan University

In the Partial Fulfillment of Requirement for the

Master Degree of Arts

in

Economics

By

BIKASH MANDAL

Roll No. 22/071

T.U. Regd. No. 6-2-28-84-2014

Central Department of Economics

Tribhuvan University, Kirtipur, Kathmandu, Nepal

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LETTER OF RECOMMENDATION

This thesis entitled *Relationship between Inflation and Economic Growth in Nepal* has been prepared by **Mr. BikashMandal** under my supervision. I hereby recommend this thesis for examination by the thesis Committee as a partial fulfillment of the requirements for the **Degree of Master of Arts in Economics**.

.....
YogeshRanjit, Ph D.
Associate Professor
(Thesis Supervisor)

Date: B.S.2075/12/29(A.D. 2019/4/12)

APPROVAL LETTER

We member of thesis committee, evaluated the thesis entitled *Relationshipbetween Inflation and Economic Growth in Nepal* prepared by **Mr. Bikash Mandal** to the Central Department of Economics, Faculty of Humanities and Social Sciences in partial fulfillment of the requirements of the degree of **Master of Arts in Economics** have found satisfactory in scope and quality. Therefore, we accept this thesis as a part of the Degree.

Thesis Committee:

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

.....
Dr. Madhav Prasad Dahal
Associate Professor
(External Supervisor)

.....
YogeshRanjit, Ph D.
Associate Professor
(Thesis Supervisor)

Date: B.S.2075/12/29 (A.D.2019/ 04 / 12)

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Bikash Mandal

April, 2019

ABSTRACT

Like several other countries, one of the central objectives of the macroeconomic policy in Nepal is to sustain high economic growth with low level of inflation. However, there has been substantial debate on whether inflation promotes or harms economic growth. Thus, this study has empirically explored the relationship between inflation and economic growth in the context of Nepal. Time series data for the period of 1974-2017 has been used. According to the result of the study inflation is negatively related with economic growth in Nepal and vice versa. However, there is uni-directional causality between inflation and economic growth. That means, economic growth does not cause inflation in Nepal. This study also revealed that foreign sectors have dominance role in causing the inflation in Nepal. Specially, Indian prices are the cause of inflation in Nepal.

Keywords: Inflation, Economic Growth, Unit Root, Granger Causality

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ABBREVIATIONS / ACRONYMS

ADF	Augmented Dickey Fuller
CBS	Central Bureau of Statistics
CPI	Consumer Price Index
EXR	Exchange Rate
FY	Fiscal Year
GDP	Gross Domestic Product
GoN	Government of Nepal
ICPI	Indian Consumer Price Index
IMF	International Monetary Fund
MoF	Ministry of Finance
NPC	National Planning Commission
NRB	Nepal Rastra Bank
p-value	Probability Value
RGDP	Real Gross Domestic Product
RCE	Real Capital Expenditure
RFT	Real Foreign Trade
TR	Tax Revenue