

Structure of Public Debt in Nepal

A Thesis

submitted to the Central Department of Economics

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in Partial Fulfillment of the Requirements for the Degree of

MASTER OF ARTS in Economics

By

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LETTER OF RECOMMENDATION

This thesis entitled **Structure of Public Debt in Nepal** has been prepared by Mrs. Mamata Katwal under my supervision and guidance. 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**.

.....

Prof. Dr. Sohan Kumar Karna

(Thesis Supervisor)

Date: 19th March 2017

06/12/2073

APPROVAL LETTER

We certify this thesis entitled **Structure of Public Debt in Nepal** submitted by Mrs. Mamata Katwal to the Central Department of Economics, Faculty of Humanities and Social Sciences, Tribhuvan University, in Partial fulfillment of the requirements for the degree of MASTER OF ARTS in Economics has been found satisfactory. Therefore, we accept this thesis as a part of the said degree.

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ABBREVIATIONS AND ACRONYMS

ADB	=	Asian Development Bank
BOP	=	Balance of Payment
CBS	=	Central Bureau of Statistics
EDO	=	External Outstanding Debt
EDS	=	External Debt Servicing
FDI	=	Foreign Direct Investment
FCGO	=	Financial Comptroller General Office
FY	=	Fiscal Year
GDP	=	Gross National Product
HRD	=	Human Resource Development
IDS	=	Internal Debt Servicing
IDA	=	International Development Association
IFAD	=	International Fund for Agricultural Development
IMF	=	International Monetary Fund
IP	=	Imports Payment
LDCs	=	Least Developed Countries
MGS	=	Imports of Goods and Services
MoF/GoN	=	Ministry of Finance/Government of Nepal
NPC	=	National Planning Commission
NRB	=	Nepal Rastra Bank
OMOC	=	Open Market Operation Committee
PCI	=	Per Capita Income
RE	=	Regular Expenditure
TD	=	Total Debt
TDS	=	Total Debt Servicing
TFD	=	Total Foreign Debt
TR	=	Total Revenue
UDCs	=	Under Developed Countries
UNDP	=	United Nations Development Program
WB	=	World Bank
WHO	=	World Health Organization
XGS	=	Export of Goods and Services

CHAPTER-I

INTRODUCTION

1. 1. Background of the Study

Public debt is an important source of government financing. It is widely used as a means of financing development activities in underdeveloped country. public debt/ borrowing taken by government is an obligation of repayment of principal sum borrowed plus a stipulated rate of interest after its maturity period to person's institutions and foreign countries. Public debt comprises of both internal and external sources of government. Internal sources include borrowing from individuals and from banking sector. External sources includes foreign loans, grants and from bilateral and multilateral agencies.

Public debt is the major source of fund for development activities basically in developing countries. Nepal is one of the least developed countries (LDCs) of the world. One major problem of all LDCs is the acute shortage of resources to finance the public expenditure. In such situation, they require to borrow money. However, in the modern world, not only for the LDCs but for developed countries also, public borrowing is becoming an important technique of government finance along with other sources of revenue, e.g., tax and non-tax revenue. When an individual's income cannot meet his/her expenditure, he/she should borrow money from somewhere. In the similar manner, government should also borrow, when its revenue cannot meet the expenditure.

Nepalese government has not a very long history of budgeting. Budgeting started in 1951. After that, we have frequent experience of deficit budgeting. There are three sources of deficit financing available to the government of Nepal, viz. foreign loan, internal loan and change in cash reserves. So, public debt has been an important tool of the Nepalese fiscal policy. However, public debt in Nepal was taken after 11 years of initiation of budgetary practice. Thus, our history of public debt is not so long. Government started to take domestic loan in 1962 whereas it started to take external loan in 1963. The first foreign creditors of Nepal were former USSR and UK (Acharya, 1968).

After that public debt has important role in the government budget. Nepal is facing a serious and growing resources gap problem on the one hand and increasing inflation and population growth on the other. As internal revenue generation such as tax revenue, surplus of public undertaking are inadequate in comparison to resource requirements. Therefore, the need of public debt as a source of resource mobilization for development financing and to strengthen the economy is a comparatively modern phenomenon and has come into existence with the development of a democratic form of government.

Economic theory suggests that reasonable levels of borrowing by a developing country are likely to enhance its economic growth. Countries at early stages of development have small stocks of capital and are likely to have investment opportunities with rates of return higher than those in advanced economies. As long as they use the borrowed funds for productive investment and do not suffer from macroeconomic instability, policies that distort economic incentives, or sizeable adverse shocks, growth should increase and allow for timely debt repayments. The best known explanation comes from "debt overhang" theories, which show that if there is some likelihood that, in the future, debt will be larger than the country's repayment ability, expected debt service costs will discourage further domestic and foreign investment and thus harm growth. Some considerations suggest that, at reasonable levels of debt, further borrowing would be expected to have a positive effect on growth. Others stress that large accumulated debt stocks may be a hindrance to growth. Both these elements together imply that debt is likely to have non-linear effects on growth (Poirson, H el ene & Luca Ricci, 2002).

Taxation is the most important source of government financing to build up socio economic infrastructure such as health education, transportation, communication etc. for economic development. But it is quite impossible to raise adequate fund through taxation in underdeveloped countries because of poor tax payable capacity of the people. The only way to collect the needed fund is public debt. Debt can be taken from citizens as well as foreigners. Hence, public debt is taken as balancing items of increasing trends of fiscal deficit.

1. 2. Statement of the Problem

Developing countries like Nepal are always facing the problem of fund needed for developmental projects. Government collects such fund from internal and external borrowing. The external borrowing is increasing more rapidly than internal debt due to wide gap between saving and investment, revenue and expenditure and exports and imports.

In Nepal, every year budgetary deficit is growing in which effective management of available resources are needed. The proposition of government borrowing and debt servicing obligation are increasing rapidly. To maintain the resource gap, debt is only one solution, which helps to increase the amount of debt. In the context of Nepal the increasing size of public debt to maintain fiscal deficit is challenging proposition. So, public debt in Nepal is a matter of concern.

In the underdeveloped countries like Nepal, domestic resources are inadequate to meet the financial requirement for the economic development due to low income, low saving and low capital formation. So it creates the low internal debt in Nepal. Thus, Nepal is more dependent on external debt than internal one. This ever increasing trend of debt servicing of the country creates a great problem for debt management and becoming a major challenging issue for the country. Foreign assistance has become major source of financing development expenditure.

The burden of public debt is very controversial issue because government has taken loan for peace and securities which are unproductive sectors. Nepal is heavily dependent on internal as well as external public debt for development. Nepal recorded a Government Debt to GDP of 27.40 percent of the country's Gross Domestic Product in 2016. Government Debt to GDP in Nepal averaged 46.19 percent from 1999 until 2016, reaching an all time high of 69.50 percent in 2001 and a record low of 25.50 percent in 2015. Since developing countries like Nepal always needs foreign currencies to import many capital goods required for development. The trend of borrowing through external source is very high in Nepal as compared to internal source.

1.3 Research Questions

The following research questions are to be answered:

- a) What are the trend and structure of public debt?
- b) How can the burden of public debt and debt servicing analyze in Nepal?
- c) Is there any resource gap in the financing of development expenditure in Nepal?

1. 4. Objectives of the Study

The general objective of this research is to study public debt in Nepal. The specific objectives are as follows:

- a. To study the trend and structure of public debt,
- b. To examine the burden of public debt and debt servicing problem in Nepal,
- c. To find out the resource gap in the financing of the development expenditure in Nepal.

1. 5. Significance of the Study

The government needs a huge amount of resources for reconstruction, rehabilitation and relief to make modern and prosperous society. In this regard, public debt can be a major source of revenue due to low level of tax payable capacity of the people.

For economic development of Nepal government must invest on various sectors such as education, health, transport, communication etc. To build up such overhead capital there is need of heavy fund. Similarly, to break the vicious circle of poverty and to improve social condition of the people, there is greater need of public debt.

As the revenue surplus has not been adequate to meet the development expenditure, the deficit budget has remained the prime feature of Nepalese fiscal policy been mobilized. Due to this reason, the value of total loan has been rising and the burden of debt servicing has been increasing year by year. This situation leads the government to become more indebted from external as well as internal borrowing.

The study of public debt is concerned to maintain high level of employment, a reasonable degree of price level stability, balance in foreign accounts and an acceptable rate of economic growth. This study will also be concentrated on the mobilization of financial resource through appropriate utilization of public debt. It is also applicable for the people and institution to purchase government securities. It is also written hoping that it will be a little reference for the budgetary system.

1.6. Limitations of the Study

The study has following limitations:

- This study is based on secondary data. No attempt is made to check the reliability of the secondary data.
- This study has covered the period of 18 years from FY 1997/98 to 2014/15 only.

1.7. Organization of the Study

This thesis is divided into five different chapters. The first chapter is concerned on the introductory part of the study with background, problems, objectives, significance and limitations of the study. The second chapter reviews some literatures, books, articles and so on. The chapter three describes about the research methodology. The chapter four is related with the presentation and analysis of data and the chapter five shows summary of findings, conclusion and recommendations. Finally, references is presented at the end of the thesis.

CHAPTER – II

LITERATURE REVIEW

2.1 Introduction

Public debt as an important source of deficit financing refers to the obligation of government to pay back to the person, institution or countries from whom it has been obtained. Generally, public debt refers to loan raised by a government within the country or outside the country. Every government like individuals has to borrow when its expenditure exceeds its revenue. Encyclopedia Britannica (1959) defines that public debt is “obligation of government, particularly those evidenced by securities, to pay certain sums to the holders at some future date.”

Most of the developing countries consist of the limited opportunities for raising the resources internally in terms of domestic debt. It is because of the low marginal propensity to save. The widespread poverty, low level of productivity, low purchasing power and minimum participation of the people in the development activities are the common characteristics of the developing countries. To alleviate the poverty and to uplift the nation with self-sustainable manner huge initial investment is the pre-condition.

On the other hand the government of developing countries like Nepal depends mostly on the external assistances. The external loan contains some criteria while receiving. Through the external debt has no current real burden on the community, it possess the burden to the future generation. The external debt has the question of the benefit and cost, which is determined by the capacity of servicing and utilization of the borrowed amount.

The Public Debt is not the new and keen matter of the students of economic. From the very beginning of classical economists, of 19th century, like J.B. Say, Malthus and Pigou has raised the argument of debt on for and against. In fact, they were against all types of debt but they appreciated the productive use of Public Debt. Then the argument of Public Debt become in favor after the rise of Keynesians.

In the literature of public debt different economists have different views regarding the public debt. Generally, Classical, Keynesian and Post Keynesian economists have different aspect towards public debt.

This chapter presents the review of literature of public debt. Moreover, it has presented various reviews of theoretical views and the review of the texts and dissertations of the Public Debt. The theoretical reviews refer to the various views of the debt from the classical economists to that of the modern economists.

2.2 International Context

Domar (1944) has defined the burden of public debt as the ratio of the total debt to the national income. He lays down the condition under which the burden would increase or decrease over time. The tax rate necessary to pay interest on debt depends on the ratio of debt multiplied by the rate of interest to income. This tax is related to growth of income and the budget deficit. The burden of debt would increase or decrease. When either ratio of deficit to income rate of interest paid on debt increases then the burden of the debt will also be increased or, the burden of the debt (t) and ratio of deficit to income (b) and the rate of interest paid on debt have positive relationship.

Taylor (1961) has analyzed the nature and the burden of public debt upon the economy upon which fiscal policy must stand without it the financing of public emergencies would be impossible. Public debt is desirable, no matter what its burden when incurred for the purpose of securing benefits which outweigh the burden. In this sense debt is a necessary evil like cost of production: if the benefits could be secured with fewer burdens the alternative would be preferable. The burden of public debt is represented by the economic hardship which it imposes. This hardship may take the form of waste of productive efficiency for the economy as whole or undesirable economic burdens imposed upon particular class. The possibility of inflation resulting from the form of borrowing constitutes another element of burden.

Nevin (1962) has considered Public debt as an important tool for the development of capital market as well. According to Nevin In the early stages of requirement stock exchange the Public debt and the government operation in it will play a fundamental role in the pre suppose and adequate flows of capital to the productive enterprises of the country. In this instance, this likely to be done to a large degree through the medium of the Public debt, with the development of trading facilities in securities, the possibility of the issues of private securities directly to local institutional investors becomes a responsible one and the follow of capital will be stimulated and expanded.

In the modern context the least developed countries borrow in order to fulfill the resource gap. There is wider gap of the import-export, Revenue-Expenditure, and the gap of saving-investment. The internal resources are not sufficient to meet the government expenditure. Generally, government makes a larger investment for the infrastructure development which is the back bone of the nation.

Harris (1974) has concluded that the classical writers were generally against the public borrowing. The classical writers assumed that individual, consumer, and the business firm employs the resources more efficiently. They were against the role of the state and they had the philosophy that the government is the best which governs the least. According to them state has to perform its limited activities; maintenance of law and order, justice and social security. Classical economists like J.B. Say, TR Malthus and CG Basetable have the strong faith that “Debt creates burden in the economy because of its unproductive nature”.

Goode (1984) has viewed that borrowed money when used to finance public investment causes no such reduction, all that will happen is the change in the consumption of capital formation. The inference is that failure to restrict borrowing to the finance of investment will retard economic growth. A weakness of the argument is that not all outlays classified as investment actually contribute to growth, while some expenditure usually classified as government consumption promotes growth.

Singh (1991) has stated that the debt involves merely a series of economic transfer payment. Hence the main concern subject is about level of income,

employment and the economic stability. It propounded the concept of the double budget; current budget and the capital budget. But Keynesian view is that the budget deficit should be undertaken during the period of depression. Post Keynesian economists think about the developing countries have a very low income, saving and investment. They further say that without increasing the rate of these crucial factors, no country could achieve steady growth. So the overall aim of borrowing is not to equalize income in different countries but to provide every country with an opportunity to achieve steady growth.

Nadim (1992) has analyzed the origin of debt problems. The debt crisis had its origin in the substantial rise in the external liabilities of the developing countries during the second half of the 1970s and early 1980s, in an environment of large scale recycling of the oil exporter's surpluses rising world inflation and negative real interest rate. At the time many viewed this recycling of fund as a positive development; creditors were able to identify new investment out less and debtors could acquire funds needed for development purposes.

Lekhi (2001) has explained that the classical economist Adam Smith opposed any use of Public Debt. He took Public Debt as leads to extravagance, encouraged resort to war and induced generally disadvantageous economic conditions for the nation, which employed it. Similarly, Bastable (1964) observed, a nation can't any more than an individual keep adding continually to its liabilities without at least coming to the end of its resources. They also taken Public Debt is no longer a cake eating feast but rather a careful and efficient brain to handle the management of the Public Debt.

World Bank (2011) has stated that baseline external public debt sustainability indicators are more favorable compared to the previous Debt Sustainability Analysis (DSA), and external debt dynamics are resilient to standard stress tests; however total public debt ratios increase gradually over the projection period. External debt indicators breach the thresholds under an alternative scenario developed to analyze risks arising from heightened financial sector stress, highlighting the urgent need to address financial sector vulnerabilities. A prudent fiscal stance remains appropriate, and net domestic financing of deficits should be contained to around 2½ percent of GDP or less. Stronger efforts to improve the absorption capacity for foreign financing would release

pressure on the domestic debt market, while structural reforms to boost long-run growth and revenue generation would improve overall public debt sustainability. The DSA results would change if large-scale external borrowing on commercial terms were to arise, for example to fund hydro development.

Barik (2012) has observed that government debt has made a significant contribution to the economic growth not only directly but also indirectly. The finding of the paper shows that public debt all being equal would appear to induce investment over time and in turn indirectly enhance growth in real output. Regression results showed public debt positively affects the economic growth controlling for other determinants of growth. On average, one percent increase in debt is associated with an increase in real GDP of around 0.08 percent per year. It appears that resources generated through public debt are basically used in a productive manner.

Chongo (2013) has studied that the relationship between public debt and the economic growth over the period 1980-2008. The aim of the study was to analyze the growth of public debt stock as well as its empirical impact on empirical economic growth. In order to understand the extent of the burden, the study has also analyzed the impact of a rising public debt stock on debt service. Results of the analysis confirm a long-run relationship between public debt and economic growth.

Ozurumba and Kanu (2014) have studied about domestic debt and economic growth in Nigeria. The study applied time series from 1980-2011 with multiple regression technique. This research revealed that not all components of our domestic debt profile are contributing positively to the economic growth of Nigeria, both in the short and long run. This calls for caution and rethink on the burgeoning level of our domestic debt profile. Government should not be seen as borrowing money for the sake of it. Domestic loans should only be called for, when it is absolutely necessary.

Isaac and Rosa García-Almada (2016) have concluded that the econometric results confirmed that public debt is positively correlated with public investment and that this in turn generates economic growth. This does not mean that a good economic policy strategy has been followed, since the marginal

positive impact of public investment, and therefore the public debt on the production per person, is reduced (1% increase in the interaction between public investment and public debt variable causes a 0.0005% increase in economic growth). This suggests deviations from the debt contracted for purposes other than production, which could lead to a situation of unsustainability of state public finances in the medium term.

2.3 National Context

Joshi (1982) has covered the structure of the public debt and the importance of public debt in the financial development. He has presented the poor performance of the nation's topography and the poor performance of the human capital. He concludes the debt is only one source of fulfill the resource gap of the budgetary expenditure of the nations and internal debt is the essential phenomena for the development of the capital as well as the entire money market.

Singh (1983) has analyzed the structure of internal debt and its impact on the economy. He found most inflationary nature of internal borrowing to increase inflection in the economy.

Gurugharana (1996) has presented share of outstanding public debt in GDP at factor cost and of foreign debt servicing in regular expenditure. He pointed out that "Although foreign loan is relatively much softer terms for Nepal compared India and China, the very low rate of return and increasing share of loan in foreign aid imply that aid slowly pushing Nepal toward a debt crisis in the coming years.

Adhikari (1996) has analyzed the foreign debt servicing problem in Nepal. She found out substantial increase in foreign debt servicing. She prescribed effective implementation of liberalization policy in all areas of investment. This can bring a great relief to the country by creating capacity for foreign exchange earning which can reduce burden of debt servicing substantially in the years to come.

Khanal (2000) has observed that the Owing to heavy reliance on external assistance in the form of borrowing on public account, Nepal's external public

indebtedness should be accompanied by an increase in debt servicing capacity so that there may be under strain in the balance of payment owing to outflow of funds through debt services.

Koirala (2002) has dealt with the debt as a useful resource for economic development, several inverse consequences were found by its over use. We have only two options: either mobilize more foreign debt to invest for economic development or put the hand off hand doing nothing. In a nutshell, we should have a debt management plan for its better use and regular servicing. The government debt has a simple relationship with the government deficit over a given year is equal to the budget deficit or a higher economic growth requires a higher level of investment that is not possible simply from taxation so that government seeks public borrowing.

Pyakurel (2004) has claimed the inadequacy of Nepal's revenue surplus to finance the development expenditure. Government expenditure and revenue pattern have shown that the economy has lost its productive capacity to respond to the sustained growth. The ratio of regular government expenditure to GDP in F/Y 1996/97 was 8.6 percent but increased to 11.5 percent in F/Y 2001/02. The revenue during the same period decreased from 7.3 percent in F/Y 1996/97 to 7 percent in F/Y 2001/02. Development expenditure also declined from 9.5 to 7.5 during the same period. Nepal's debt service position, though within sustainable limit, has consumed quite a significant chunk of fresh resources, which could otherwise use for productive purposes. Its debt service ratio during 1990s remained around one third of annual regular expenditure. With the dominance of the loan portions in the foreign assistance and the maturity of the debt incumbent upon the nation, to have advocated the necessity of a cautious approach to proper management of the variable external resources.

Thapa (2005) has observed that although Nepal's debt burden and its servicing should not be called as excessive on the basis of development, it is quite burdensome. Debt burden has reached this level even to achieve such meager development. Nepal has not taken high growth path so far and once it takes it will require enormous amount of investment and that investment will have to be made through borrowing from both domestic as well as the external sources. At that time Nepal will have to borrow an unlimited amount of financial

resources from both the sources. Therefore, until growth takes momentum, we should be extremely judicious while borrowing to finance the budget deficits.

Neupane (2007) has observed that government borrowing has been increasing unlikely uncertainties, high expenditure, hence, government always lacks of resources then borrows the new loan to previous ones. That's why, the public debt and its interests are mounting rapidly, but addressing capacity for redemption of the debt is not increasing in same pace.

Regmi (2008) has found out that Nepal is in critical phase of managing public finance because of inadequate internal resources fiscal or revenue deficit is widening every year. In order to finance the deficit, the government is borrowing internal and domestic debt. The portion of external debt is too higher as compared to domestic loan.

Bista (2011) has analyzed that public external debt has a negative and significant relationship with per capita GDP an investment both in the short run and in the long run in Pakistan for period 1972-2009. It develops a hybrid model that explicitly incorporates the role of public debt in growth equations. Auto regression Distributed Lag (ADRL) technique has been applied to estimate the model.

Bhattarai (2013) has concluded that the average growth rate of public debt is 18.86%. The average share of external loan is greater than that of internal loan. However, in the latter period, the share of internal loan is significantly greater than that of external loan. The growth rate of economy seems to be relatively low. Low rate of economic growth and high rate of inflation is one major problem of the Nepalese economy. So, the efforts should be accelerating the growth rate so that more employment opportunities can be generated and income of the people can be increased.

Sharma (2014) has suggested that growing trend of borrowing creates a great problem for debt management and has become challenging issue for the country. The borrowing money is unlikely financed on the non-monetized and unproductive sectors of the economy which in turn has proved to be a burden for the country. The degree of indebtedness of the external debt has increased due to the poor mobilization of internal resources, widening investment saving

gap, export import gap, revenue expenditure gap and large amount of fiscal deficit. The burden of debt and debt servicing obligations are increasing every year but debt servicing capacity is not increasing in same pace.

Acharya (2015) has concluded that the average annual growth rate of GDP, revenue and export earnings are considerably low as compared with that of debt and its servicing obligation and the most of the borrowed funds are using in unproductive sectors. Because of the misuse of borrowed funds, other things remaining the same there are symptoms of steadily falling into the debt trap. The agile amount of debt and poor servicing capacity of the government compel to think the sinking condition of the economy. It arises several questions about the capacity of debt receiving and existence of the nation. Excessive dependency on foreign assistance makes the balance of payment on the favor of creditors which is horrible situation to get rid of. Any way it can play the useful role for the economic development of every nation and it is widely accepted measure also for financing government expenditure.

2.4 Research Gap

Studies done in the past have opened the way to future research stating that the application of relevant methodology would provide time outcomes. Further, the objectives and methodologies of the present study are different from those of aforementioned reviewed studies and articles. So, this study intends to link and fill gaps in the literature of the past at academic level covering large span of time series annual data. Further, in the changed socio- economic structure of the economy, the past studies may not provide sound guidelines for present policy prescription. Therefore, an in- depth study on relationship between government debt and economic growth is utmost important and it is expected that it will contribute extra knowledge in the existing field.

CHAPTER - III

RESEARCH METHODOLOGY

3. 1. Research Design

The study has followed both descriptive and analytical types of research design.

3. 2. Nature and Sources of data

This study is based on secondary sources of data and information collected from the published sources like: Publications of Nepal Rastra Bank, Publications of Ministry of Finance, Publications of Central Bureau of Statistics, Newspaper, published articles on different journals and magazines, Dissertation available at the central library of T.U., Publications of world Development Report and Publications of world Bank and Internet, e-mail.

3. 3. Methods of Data Analysis

The collected data from various relevant sources is processed according to the need of the chapter. The available data from various documents are collected, classified and tabulated to meet the needs of the study. Some statistical tools such as percentage distribution, average annual growth rate and trend analysis are used for analyzing the data when they are necessary.

3.4 Definition of Terminologies

- Public Debt: total public debt includes an external obligation of a public debtor and national government.
- Internal Debt: Internal debt is the government's borrowing from domestic banking sector and individual

- External Debt: External debt is the government's borrowing from external source through bilateral and multilateral source.
- Gross Domestic Product (GDP): GDP is the measure of the total domestic output at factor price.
- Debt Servicing: Debt Servicing refers to the principle payment and interest payment on loan after maturity.
- Burden of Debt: Burden of Debt is the sacrifice of the community through a rise in taxation at the time of repayment and for paying the annual interests on the government loans.
- Debt Trap: Debt Trap is the situation when new fresh loans are taken to redeem the previously taken loan.
- Export of goods and services (XGS): XGS are the total value of goods and all service (Including worker's remittance) sold to the rest of the world.
- Import of goods and services (MGS): MGS are total value of goods and services purchased from the rest of the world.
- Gross National Product (GNP): GNP is the measure of the total domestic and foreign output claimed by resident of the economy, less the domestic output

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Trends and Structure of Public Debt

The debt is useful resource for economic development of underdeveloped countries. To fulfill the objectives of economic development, there is need of heavy investment to build up socio-economic infrastructure such as health, education, transportation, communication etc. Public debt is widely accepted as a means of deficit financing measures to reduce the BOP deficit, imbalance and resource gap. The role of Public debt has been increased significantly due to the planned economic development.

As of now, Nepalese economy relies heavily both on short-term domestic debt and concessional foreign loans, particularly multi-lateral agencies like The World Bank, ADB, IFAD, etc., of long maturity. The outstanding domestic debt liability has totaled Rs. 232400 million in 2015/16 and external debt liability has reached Rs. 374300 million in the same period. Total Public Debt Liability as of 2015/16 stands at Rs. 606700 million.

The structure of the government finance in Nepal clearly indicates the important role of public debt, both internal and external, in meeting the resource gap. Public debt has been used in Nepal as a regular mechanism of deficit financing. Public Debt Act, 2059 delegate domestic debt management to Nepal Rastra Bank (NRB). On behalf of GON, Nepal Rastra Bank acts as the manager and regulator of domestic debt. Accordingly, MOF has been focusing on policy guidelines and external debt and while, NRB executes through its Open Market Operation Committee (OMOC) and Public Debt Management Department (PDMD) on issuing government domestic debt securities in the form of treasury bills and longer term bonds. While, external debt is managed by Ministry of Finance through FCGO.

4.1.1 Growth Trends of Government Borrowing

The expenditure of the government is increasing very rapidly as compare to increase the income resource it is due to the rapid increase in the service of the government. Reliance on Taxation is not sufficient in view of the large amount of financial resources required for growing government expenditure and therefore, there is increasing need for supplementing it by borrowing internally and externally, Nepal is facing large financial resources gap in the government budget. Thus, government has to borrow loans to meet it. This trend is shown in the table 4.1.

Table 4.1 Public Debt as Percentage of GDP

(NRs. in Million)

Fiscal Year	Nominal GDP at Current Price	Total Debt(TD)	External Debt(ED)	Internal Debt(ID)	TD as percentage of GDP	ED as percentage of GDP	ID as percentage of GDP
1	2	3	4	5	6	7	8
1997/98	289798	14454.6	11054.4	3400	5.0	3.8	1.2
1998/99	330018	16562.4	11852.4	4710	5.0	3.6	1.4
1999/00	366251	17312.2	11812.2	5500	4.7	3.2	1.5
2000/01	394052	19044	12044	7000	4.8	3.1	1.8
2001/02	406138	15698.7	7698.7	8000	3.9	1.9	2.0
2002/03	437546	13426.8	4546.4	8880	3.1	1.0	2.0
2003/04	474919	13236.8	7629	5607	2.8	1.6	1.2
2004/05	508651	18204.2	9266.1	8939.1	3.6	1.8	1.8
2005/06	557869	20048.5	8214.4	11834.2	3.6	1.5	2.1
2006/07	696989	27945.8	10053.5	17892.3	4.0	1.4	2.6
2007/08	792131	29476.3	8979.9	20496.4	3.7	1.1	2.6
2008/09	988272	28385.9	9968.8	18417.1	2.9	1.0	1.9
2009/10	1192774	41137	11223.4	29914	3.4	0.9	2.5
2010/11	1374953	54591.4	12075.6	42515.8	4.0	0.9	3.1
2011/12	1527344	47501.8	11083.1	36418.7	3.1	0.7	2.4

1	2	3	4	5	6	7	8
2012/13	1695011	31012.4	11969.4	19043.0	1.8	0.7	1.1
2013/14	1964540	37981.6	17998.8	19982.8	1.9	0.9	1.0
2014/15	2120470	67983.1	25615.6	42367.5	3.2	1.2	2.0
2015/16 *	2248691	182964.7	94964.7	88000			
					8.1	4.2	3.9
Average Annual Growth Rate			8.5%	22.2%	3.6	1.7	1.9

Note: An asterisk denotes preliminary data.

Source: Various Issues of Economic Survey from FY1997/98 to 2015/16.

The table 4.1 shows that the government borrowing and annual growth rate between the periods 1997/98 to 2014/15. As table shows that the under the review period total government borrowing has increased from Rs.14454.6 million to Rs.67983.1 million and it is estimated to stand at 182964.7 million in the FY 2015/16. Similarly external borrowing also increased from Rs.11054.4 million to Rs. 25615.6 million under the period of study and estimated external borrowing for FY 2015/16 is Rs. 94964.7 million. Likewise internal borrowing is increased from Rs. 3400 million to Rs. 42367.5 million and estimated to 88000 million in FY 2015/16. Since the share of total debt to GDP was 5 percent in FY 1997/98 and it is decreased to 3.2 percent in FY 2014/15, the government borrowing is increasing in absolute value. The table also shows that the share of internal borrowing is increasing as compare to external borrowing. The average annual growth rate of internal debt is 22.2 percent whereas the average annual growth rate of external debt is 8.5 percent.

4.1.2 Outstanding Public Debt in Nepal

The trend of ever growing fiscal deficit, the government has to borrow large amount of public debt to meet ever increasing financial resource gap. Usually public debt is used as means of meeting the government budgetary expenditure, but in case in Nepal it is the main and reliable resources of meeting the government expenditure over from the years. So the volume of outstanding

public debt has been increasing. The trend of increasing volume in public debt is shown in table 4.2

Table 4.2 Outstanding Debt as Percentage of GDP (NRs. In Million)

Fiscal Year	Nominal GDP at Current Price	Total Outstanding Debt(TD)	External Outstanding Debt(EOD)	Internal Outstanding Debt(IOD)	TOD as percentage of GDP	EOD as percentage of GDP	IOD as percentage of GDP
1997/98	289798	199614.7	161208	38406.7	68.9	55.6	13.3
1998/99	330018	219135.6	169465.9	49669.7	66.4	51.4	15.1
1999/00	366251	244948.2	190691.2	54257	66.9	52.1	14.8
2000/01	394052	260448.4	200404.6	60043.8	66.1	50.9	15.2
2001/02	406138	293746.3	220125.6	73620.7	72.3	54.2	18.1
2002/03	437546	308078.5	223433.2	84645.3	70.4	51.1	19.3
2003/04	474919	318913	232779.3	86133.7	67.2	49.0	18.1
2004/05	508651	307206.1	219641.9	87564.2	60.4	43.2	17.2
2005/06	557869	328679.2	233968.6	94710.6	58.9	41.9	17.0
2006/07	696989	320404.9	216628.9	103776	46.0	31.1	14.9
2007/08	792131	353299.7	242060.6	111239.1	44.6	30.6	14.0
2008/09	988272	402700	277000	125700	40.7	28.0	12.7
2009/10	1192774	404303	256243.3	142859.7	33.9	21.5	12.0
2010/11	1374953	443700.0	259501.1	184199.0	32.3	18.9	13.4
2011/12	1527344	523207.6	309287.0	213920.6	34.3	20.2	14.0
2012/13	1695011	545314.8	333442.0	211872.8	32.2	19.7	12.5
2013/14	1964540	553507.7	346819.1	206688.6	28.2	17.7	10.5
2014/15	2120470	544918.6	343261.8	201656.8	25.7	16.2	9.5
2015/16*	2248691	606700	374300	232400	27.0	16.6	10.3
Average Annual Growth Rate		6.3%	4.8%	10.6%	50.8	36.3	14.5

Note: An asterisk denotes estimated.

Source: Various Issues of Economic Survey from FY 1997/98 to 2015/16,
MOF/GON

The table 4.2 seems as an elaboration of debt burden of Nepal in which the total outstanding public debt of government has increased from Rs. 199614.7 million in 1997/98 to Rs. 544918.6 million in FY 2014/15 with average annual growth rate of 6.3 percent and it is estimated to 606700 million in FY 2015/16. The table shows that outstanding external debt has increased from Rs.161208 million in fiscal year 1997/98 to Rs. 343261.8 million in fiscal year 2014/15 with average annual growth rate of 4.8 percent and it is estimated to Rs. 374300 million in the FY 2015/16. The outstanding internal debt has increased from 38406.7 million to 201656.8 million in the review period with average annual growth rate of 10.6 percent and it is estimated to stand at 232400 Rs.million in the FY 2015/16.

The average annual shares of total outstanding, external outstanding and internal outstanding debt to GDP are found 50.8, 36.3 and 14.5 percent respectively. The share of internal outstanding debt to GDP is relatively high to share of external outstanding debt to GDP.

4.1.3 Structure of Internal Outstanding Debt in Nepal

Nepal has carried out internal borrowing program since four decades. It is used for to meet the resources gap on the budgetary system and mobilizing financial resources for development. The Government mobilizes the internal borrowing by issuing mainly treasury bills, development bonds, national special certificate and special bonds. Table 4.3 shows the structure of internal net outstanding debt in Nepal.

Table 4.3 Structure of Internal Outstanding Debt in Nepal

(NRs. in Million)

Fiscal Year	Total internal Outstanding Debt	Treasury Bills	Development Bonds	National Saving Certificate
1	2	3	4	5
1997/98	38406.7	9182.5	3302.2	9886.4
1998/99	49669.7	17586.9	3872	10426.4
1999/00	54257	21027	4262.2	11526.5
2000/01	60043.8	27610.8	5962.2	12476.4
2001/02	73620.7	41106.5	11090.7	11536.1

1	2	3	4	5
2002/03	84645.3	48860.7	16059.2	9629.8
2003/04	86133.7	49429.6	17549.2	9029.8
2004/05	87564.2	51383.1	19999.2	6576.7
2005/06	94710.6	62970.3	17959.2	3876.8
2006/07	103776	74445.3	19177.1	1516.9
2007/08	111239.1	85033	21735.4	1116.9
2008/09	125700	86515.1	29478.5	2169.5
2009/10	142859.7	102043.7	35519.4	1015.6
2010/11	184199.0	120340.7	43519.4	10680
2011/12	213920.6	131624.1	57519.5	15680.0
2012/13	211872.8	131624.1	51610.9	15680.0
2013/14	206688.6	136468.1	47110.9	16586.5
2014/15	201656.8	119858.1	57070.0	16586.5
2015/16*	232400	116059.1	108900.0	906.5

Note: An asterisk denotes preliminary data.

Source: Various Issues of Economic Survey from FY 1997/98 to 2015/16, MOF/GON and Macroeconomic Indicators of Nepal 2016 NRB.

Table 4.3 presents the annual net outstanding internal debt and primary sources of internal debt. The total outstanding debt was Rs.38406.9 million during FY 1997/98 and it reaches to Rs.201656.8 million in the FY 2014/15. This reflects the highly indebted economy with low economic standard of citizens. Preliminary data for FY 2015/16 shows that the total outstanding debt reaches to 232400 million.

In the review period, Treasury bills are increased from Rs.9182.5 million in 1997/98 to Rs.119858.1 million. Development bonds are increased from Rs. 3302.2 million to Rs.57070.0 million and National Saving Certificate increased from Rs. 9886.4 million to Rs. 16586.5 million.

4.1.4 Structure of External Debt in Terms of Disbursement by Major Sources.

Nepal's first experience of foreign economic assistance was heralded by the point-four-program agreement signed on 23rd Jan, 1951. In which the U.S.

Governments assistance of twenty two thousands rupees was provided. But Nepal had started to borrow foreign loan since 1964/65. The foreign assistance grants and loans are the major source of foreign currency for Nepal.

Nepal has borrowed the external loan through bilateral and multilateral sources. Bilateral loans are loans form government and their agencies, loans from autonomous bodies and direct loans from official expert credit agencies. Multilateral loans are loans and credits form multilateral agencies as World Bank, IMF, Regional Development Banks and other multinational and inter-governmental agencies. It is necessary to compare an Analyze the follow of foreign loan and it debt servicing through the earnings of foreign trade. Review period between 1997/98 to 2014/15, the foreign loan disbursement has been shown by Table 4.4

Table 4.4: Structure of External Debt in terms of Disbursement by Major Sources

(NRs. in Million)

Fiscal Year	External Loan(1)	Bilateral Loan(2)	Multilateral Loan(3)	(2)as percent of (1)	(3)as percent of (1)
1	2	3	4	5	6
1997/98	11054.4	1314.5	9740	11.9	88.1
1998/99	11852.4	584	11268.4	4.9	95.1
1999/00	11812.2	757.9	11054.3	6.4	93.6
2000/01	12044	586.7	11457.3	4.9	95.1
2001/02	7698.7	87	7611.6	1.1	98.9
2002/03	4546.4	657.2	3889.2	14.5	85.5
2003/04	7629	66	7563	0.9	99.1
2004/05	9266.1	126.5	9139.6	1.4	98.6
2005/06	8214.4	40.6	8173.7	0.5	99.5
2006/07	10053.5	9004.5	1048.9	89.6	10.4
2007/08	8979.9	632.1	8347.7	7.0	93.0
2008/09	9968.8	612.9	9356.9	6.1	93.9
2009/10	11223.4	455.5	6672.8	40.6	59.5

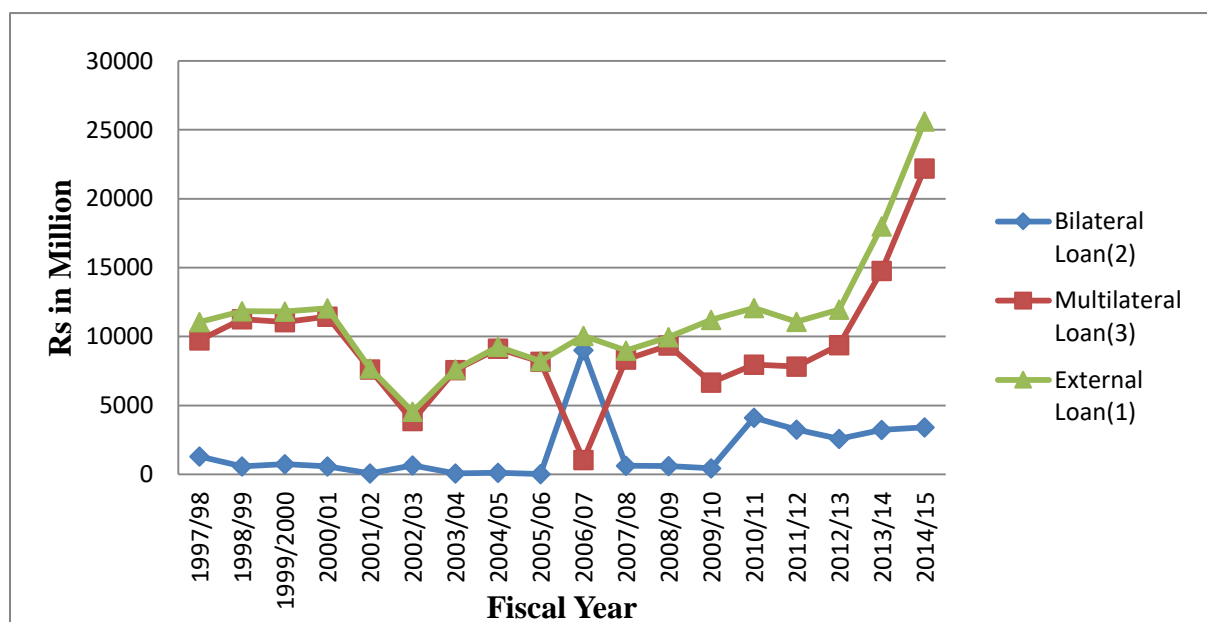
1	2	3	4	5	6
2010/11	12075.6	4112.4	7963.2	34.1	65.9
2011/12	11083.1	3254.4	7828.7	29.4	70.6
2012/13	11969.4	2574.45	9394.9	21.5	78.5
2013/14	17998.8	3240.5	14758.3	18.0	82.0
2014/15	25615.6	3427.6	22188.0	13.4	86.6
2015/16*	119440	44757.0	74683.0		
Average Annual Growth Rate				17.0	83.0

Note: An asterisk denotes committed.

Source: Various Issues of Economic Survey from FY 1997/98 to 2015/16, MoF/GoN

Table 4.4 shows that the pattern of bilateral and multilateral loan. In the review period bilateral loan increased from 1314.5 million to 3427.6 million whereas multilateral loan is increased from 9740 million to 22188.0 million. Likewise the average share of multilateral loan to total external loan on review period stick on 83 percent whereas the average shares of bilateral loan to total external loan is 17 percent.

Figure 4.1: Trend of External Debt in terms of Disbursement by Major Sources



Source: Various Issues of Economic Survey from FY 1997/98 to 2015/16.

4.1.5 Structure of Deficit Financing:

Public debt has been the main sources for financing fiscal deficit in Nepalese fiscal system. A deficit in fiscal position occurs when the government spends more than its current revenue. The government must borrow from somewhere to meet its fiscal deficit; broadly there are two sources of deficit financing- internal and external.

Table 4.5 Internal and External Debt as Percentage of Budget Deficit
(NRs. in Million)

Fiscal Year	Budget Deficit	Total Debt(TD)	Internal Debt(ID)	External Debt(ED)	ID as percentag e of BD	ED as percenta ge of BD
1	2	3	4	5	6	7
1997/98	17777.8	14454.6	3400	11054.4	19.1	62.2
1998/99	17991.1	16562.4	4710	11852.4	26.2	65.9
1999/00	17667	17312.2	5500	11812.2	31.1	66.9
2000/01	24188.1	19044	7000	12044	28.9	49.8
2001/02	22940.4	15698.7	8000	7698.7	34.9	33.6
2002/03	16437.2	13426.8	8880	4546.4	54.0	27.7
2003/04	15928.2	13236.8	5607	7629	35.2	47.9
2004/05	18046.5	18204.2	8939.1	9266.1	49.5	51.3
2005/06	24779.6	20048.5	11834.2	8214.4	47.8	33.1
2006/07	30091.6	27945.8	17892.3	10053.5	59.5	33.4
2007/08	33076.7	29476.3	20496.4	8979.9	62.0	27.1
2008/09	49802.7	28385.9	18417.1	9968.8	37.0	20.0
2009/10	43144.8	41137	29914	11223.4	69.3	26.0
2010/11	39622	54591.4	42515.8	12075.6	107.3	30.5
2011/12	51184.3	47501.8	36418.7	11083.1	71.2	21.7
2012/13	24711	31012.4	19043.0	11969.4	71.1	48.4
2013/14	38740	37981.6	19982.8	17998.8	51.6	46.5

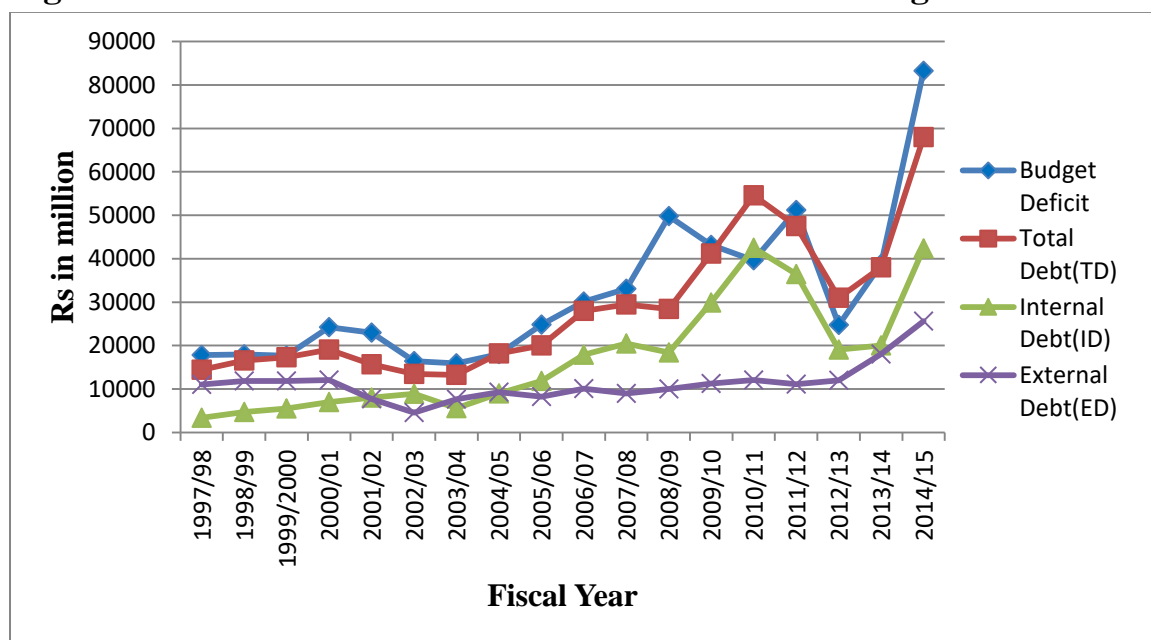
1	2	3	4	5	6	7
2014/15	83220	67983.1	42367.5	25615.6	50.9	30.8
2015/16*	231520	182964.7	88000	94964.7		
Average					50.37	40.15

Note: An asterisk denotes estimated.

Source: Various Issues of Economic Survey from FY 1997/98 to 2015/16, MoF/GoN

Table 4.5 shows the increasing trend of public debt from both internal and external sources. Public Debt which was Rs. 14454.6 million in 1997/98 has increased to Rs. 67983.1 million in 2014/15. Internal debt was Rs. 3400 million in fiscal year 1997/98 and gone up to Rs. 42367.5 million in fiscal year 2014/15, whereas external debt was Rs. 11054.4 million in 1997/98 which has increased to Rs.25615.6 million in 2014/15. This shows the tremendous increasing trend. The table also shows that the percentage share of internal and external debt to budget deficit. Contribution of internal and external debt was 19.1 and 62.2 percent in fiscal year 1997/98 respectively, whereas share of internal and external debt is 50.9 and 30.8 percent in fiscal year 2014/15.

Figure 4.2 Trend of Internal and External Debt and Budget Deficit



Source: Various Issues of Economic Survey from FY 1997/98 to 2015/16.

4.2 Burden of Public Debt and Debt Servicing Problem

Burden of public Debt is increasing very rapidly in our country; it indicates that the sacrifice and effect on the community through a rise in taxation at the time of repayment and for paying the annual interests on the government loans. Government borrowing has been excessive and the burden of Public debt is increasing day by day. The total burden of Public debt can be classified into two groups; burden of internal debt and burden of external debt.

4.2.1 National Debts and Its Share in GDP

The relative magnitudes of the Public Debt of the GDP should be taken into consideration for assessing the burden of growing public indebtedness in an economy. Nepal has to borrow huge amount of loan from external as well as internal sources for meeting deficit budget. Burden of outstanding debt is increasing because of the tax revenue and non-tax revenue is not increasing as its expectation and unutilized of Public Debt. Here, table 4.2.1 shows the burden of debt through the method of measure of burden of debt as the ratio of Public Debt to GDP.

Table 4.6 Outstanding Debts and Its Share in GDP

(NRs. in million)

Fiscal Year	Total outstanding debt	External Outstanding Debt	internal Outstanding Debt	Nominal GDP at current price	Share in Percentage of GDP		
					Total Debt	External Debt	Internal Debt
1	2	3	4	5	6	7	8
1997/98	199614.7	161208	38406.7	289798	68.9	55.6	13.3
1998/99	219135.6	169465.9	49669.7	330018	66.4	51.4	15.1
1999/00	244948.2	190691.2	54257	366251	66.9	52.1	14.8
2000/01	260448.4	200404.6	60043.8	394052	66.1	50.9	15.2
2001/02	293746.3	220125.6	73620.7	406138	72.3	54.2	18.1
2002/03	308078.5	223433.2	84645.3	437546	70.4	51.1	19.3
2003/04	318913	232779.3	86133.7	474919	67.2	49.0	18.1
2004/05	307206.1	219641.9	87564.2	508651	60.4	43.2	17.2
2005/06	328679.2	233968.6	94710.6	557869	58.9	41.9	17.0

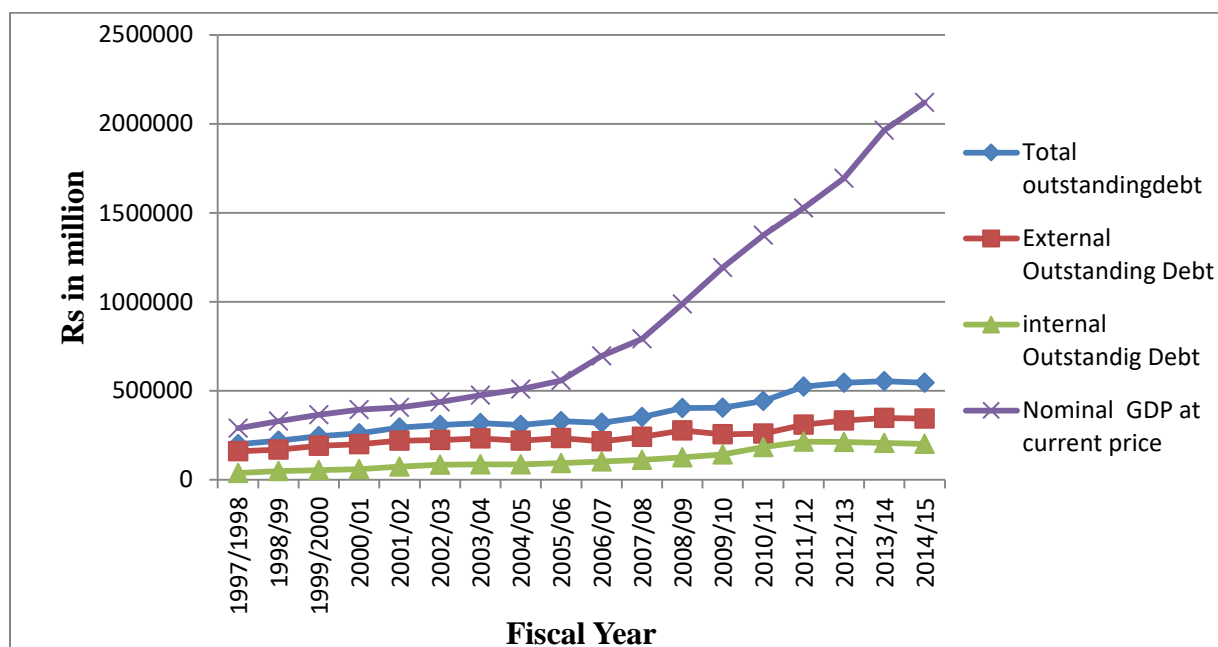
1	2	3	4	5	6	7	8
2006/07	320404.9	216628.9	103776	696989	46.0	31.1	14.9
2007/08	353299.7	242060.6	111239.1	792131	44.6	30.6	14.0
2008/09	402700	277000	125700	988272	40.7	28.0	12.7
2009/10	404303	256243.3	142859.7	1192774	33.9	21.5	12.0
2010/11	443700.0	259501.1	184199.0	1374953	32.3	18.9	13.4
2011/12	523207.6	309287.0	213920.6	1527344	34.3	20.2	14.0
2012/13	545314.8	333442.0	211872.8	1695011	32.2	19.7	12.5
2013/14	553507.7	346819.1	206688.6	1964540	28.2	17.7	10.5
2014/15	544918.6	343261.8	201656.8	2120470	25.7	16.2	9.5
2015/16 *	606700	374300	232400	2248691			
Average		4.8% annual growth rate	10.6% annual growth rate		50.8	36.3	14.5

Note: An asterisk denotes estimated.

Source: Source: Various Issues of Economic Survey from FY 1997/98 to 2015/16, MOF/GON and Macroeconomic Indicators of Nepal 2016, NRB.

Table 4.6 shows that the magnitude of outstanding debt, GDP and their ratio, which also assesses the burden of Public Debt. Total outstanding of Public Debt has increased from Rs. 199614.7 million in 1997/98 to Rs. 544918.6 million in 2014/15. And its share to GDP has decreased from 68.9 percent to 25.7 percent. The share of external outstanding debt to GDP has decreased from 55.6 percent to 16.2 percent and share of internal outstanding debt to GDP has decreased from 13.3 percent to 9.5 percent under the review period. Since average annual growth rate of external outstanding and internal outstanding debt are 4.8 and 10.6 percent respectively, the share of outstanding debt to GDP seemed to have declined in recent year and it's not in worrying state as per international standard.

Figure 4.3 Trend of Internal, External and Total Outstanding Debt and GDP



Source: Source: Various Issues of Economic Survey from FY 1997/98 to 2015/16, MOF/GON and Macroeconomic Indicators of Nepal 2016, NRB.

4.2.2 Debt Servicing Issues in Nepal

Nepal is taking huge amount of external and internal loan with the obligation of future repayment. In Nepalese context, foreign loan share is rapidly increasing which increase financial and real burden for the future generation. So the debt servicing is one of the problems of Nepalese economy because most of the portion of revenue has been used to pay the interest of internal debt as well as external debt. The ratio of internal and external debt servicing to total debt servicing during the period 1997/98 to 2014/15 has shown in table 4.7.

Table 4.7: Share of External and Internal Debt Servicing in Total Debt Servicing (NRs. Million)

Fiscal Year	Total Debt Servicing (TDS)	Internal Debt Servicing (IDS)	External Debt Servicing (EDS)	IDS as Percentage of TDS	EDS as percentage of TDS
1	2	3	4	5	6
1997/98	7682.8	3481.6	4201.2	45.3	54.7

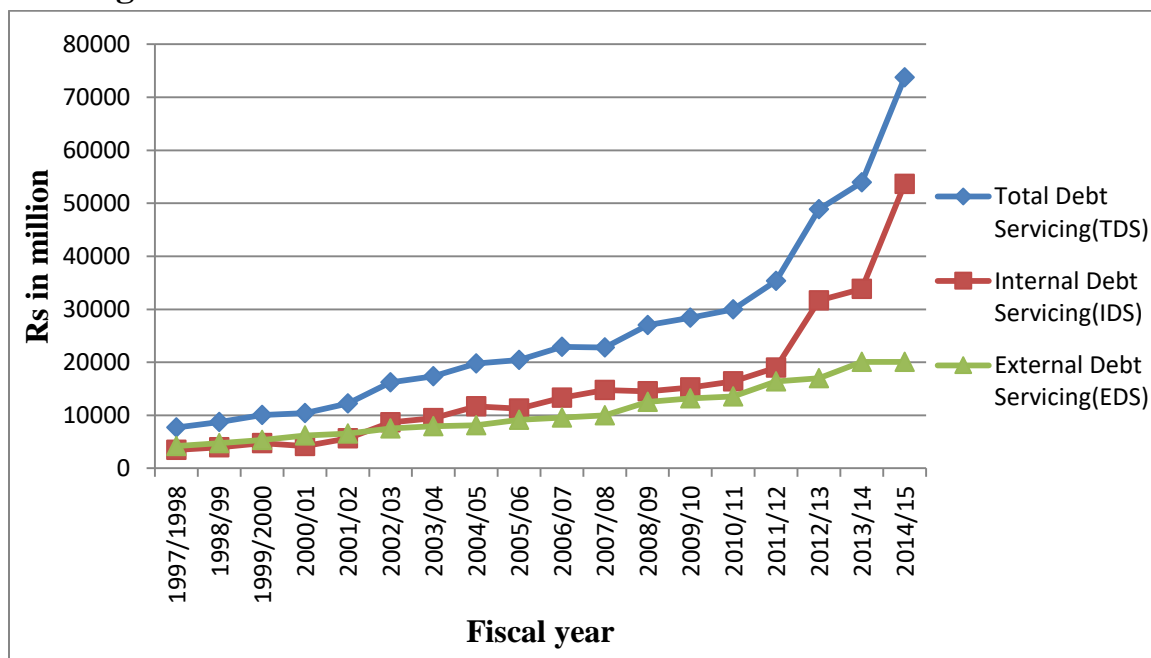
1	2	3	4	5	6
1998/99	8723	3977.5	4745.5	45.6	54.4
1999/00	10032.8	4711.4	5321.4	47.0	53.0
2000/01	10388.4	4187	6201.4	40.3	59.7
2001/02	12205.2	5637.7	6567.5	46.2	53.8
2002/03	16181.3	8662.1	7519.2	53.5	46.5
2003/04	17338.8	9429.9	7908.9	54.4	45.6
2004/05	19751.3	11651.4	8099.9	59.0	41.0
2005/06	20423.5	11272.7	9150.8	55.2	44.8
2006/07	22916.3	13321.8	9594.5	58.1	41.9
2007/08	22760.6	14742.1	10014.7	64.8	44.0
2008/09	26988.3	14494.3	12494	53.7	46.3
2009/10	28413.6	15212.5	13201.1	53.5	46.5
2010/11	29957.6	16417.6	13540.0	54.8	45.2
2011/12	35319.9	18956.7	16363.2	53.7	46.3
2012/13	48866.7	31673.5	17013.4	64.8	34.8
2013/14	53914.8	33825	20089.8	62.7	37.3
2014/15	73722.8	53658.9	20077.9	72.8	27.2
Average				54.7	45.7

Source: Various Issues of Economic Survey from 1997/98 to 2015/16 and Macroeconomic Indicators of Nepal 2016, NRB.

Table 4.7 reflects that total debt servicing amount has increased from Rs 7682.8 million in FY 1997/98 to Rs73722.8 million in FY 2014/15. This indicates an increasing trend of total debt servicing.

Similarly, the internal debt servicing amount has increased from Rs.3481.6 million in fiscal year 1997/98 to Rs 53658.9 million in fiscal year 2014/15. And the external debt servicing has increased from Rs 4201.2 million in fiscal year 1997/98 to Rs 20077.9 million in fiscal year 2014/15. The average of internal debt servicing to total debt servicing is 54.7 and average of external debt servicing as percentage of total debt servicing is 45.7 percent in the review period. This means the burden of internal debt is growing rapidly than burden of external debt.

Figure 4.4: Trend of External and Internal Debt Servicing in Total Debt Servicing.



Source: Various Issues of Economic Survey from FY 1997/98 to 2015/16 and Macroeconomic Indicators of Nepal 2016, NRB.

4.2.3 Analysis of Internal Debt Servicing Situation

The burden of Public Debt is measured by the ratio between the debt servicing and total revenue and the ratio between servicing cost and national income (GDP). Which is shown in the table 4.8 below.

Table 4.8 Share of Internal Debt servicing in total revenue, Regular expenditure and GDP
(NRs. in Million)

Fiscal Year	Total Revenue (TR)	Regular Expenditure	GDP	Internal Debt Servicing (IDS)	IDS as % of TR	IDS as % of RE	IDS as % of GDP
1	2	3	4	5	6	7	8
1997/98	32937.9	27174.4	289798	3481.6	10.6	12.8	1.2
1998/99	37251.3	31944.2	330018	3977.5	10.7	12.5	1.2
1999/00	42893.8	35579.3	366251	4711.4	11.0	13.2	1.3

1	2	3	4	5	6	7	8
2000/01	48893.6	45837.3	394052	4187	8.6	9.1	1.1
2001/02	50445.5	48863.9	406138	5637.7	11.2	11.5	1.4
2002/03	56229.8	52090.5	437546	8662.1	15.4	16.6	2.0
2003/04	62231.0	55552.1	474919	9429.9	15.2	17.0	2.0
2004/05	70122.7	61686.4	508651	11651.4	16.6	18.9	2.3
2005/06	72282.1	67017.8	557869	11272.7	15.6	16.8	2.0
2006/07	87712.2	77122.4	696989	13321.8	15.2	17.3	1.9
2007/08	107620.5	91446.9	792131	14742.1	13.7	16.1	1.9
2008/09	143474.4	124425.3	988272	14494.3	10.1	11.6	1.5
2009/10	177990.1	186597.6	1192774	15212.5	8.5	8.2	1.3
2010/11	198376.3	210167.7	1374953	16417.6	8.3	7.8	1.2
2011/12	244374.9	243460.0	1527344	18956.7	7.8	7.8	1.2
2012/13	296021.1	247455.0	1695011	31673.5	10.7	12.8	1.9
2013/14	356620.7	303530.0	1964540	33825	9.5	11.1	1.7
2014/15	405866.4	339407.0	2120470	53658.9	13.2	15.8	2.5
2015/16*	475012.1	484266	2248691	-			
Average Annual Growth Rate					11.18	13.2	1.6

Note: An asterisk denotes preliminary data.

Source: Various Issues of Economic Survey from FY 1997/98 to 2015/16 and Macroeconomic Indicators of Nepal 2016, NRB.

Table 4.8 shows the volume of total revenue, regular expenditure, GDP and internal debt servicing. It also shows the share of TR, RE and GDP as percentage of internal debt servicing. Under the study period (fiscal year 1997/98 to 2014/15), the magnitude of total revenue, regular expenditure, GDP and internal debt servicing was Rs 32937.9, Rs.27174.4, Rs.289798 and Rs.3481.6 million at the starting period of review and which has increased to Rs. 405866.4, Rs.339407.0, Rs.2120470 and Rs.53658.9 million at the last period of review respectively. Observing Table 4.2.3 the nature of internal debt servicing as percentage of total revenue, regular expenditure, GDP and internal debt servicing has been increasing. The internal debt servicing as percentage of total revenue was 10.6 percent in fiscal year 1997/98 and it has decreased to 7.8 percent in fiscal year 2011/12 and in FY 2014/15 it moves to 13.2 percent. Internal debt servicing as percentage of regular expenditure was 12.8 percent in

fiscal year 1997/98 and has increased to 15.8 percent in fiscal year 2014/15. Similarly, the internal debt servicing as percentage of GDP was 1.20 percent in fiscal year 1997/98 and has increased to 2.5 percent in fiscal year 2014/15 which indicates that the trend of internal debt servicing as percentage of GDP is increasing.

4.2.4 Annual Internal Borrowing and Internal Debt Servicing

The proportional relationship between annual internal borrowings and internal debt servicing can be taken as important aspects of internal debt analysis. Table 4.2.4 shows that the aspects of internal debt servicing and proportion of annual borrowing which has spent on debt servicing.

Table 4.9 Annual Internal Debt Servicing as Percentage of Annual Internal Borrowing

(NRs. in million)

Fiscal Year	Internal Debt (ID)	Internal Debt Servicing (IDS)	IDS as percent of ID
1	2	3	4
1997/98	3400	3481.6	102.4
1998/99	4710	3977.5	84.4
1999/00	5500	4711.4	85.7
2000/01	7000	4187	59.8
2001/02	8000	5637.7	70.5
2002/03	8880	8662.1	97.5
2003/04	5607	9429.9	168.2
2004/05	8939.1	11651.4	130.3
2005/06	11834.2	11272.7	95.3
2006/07	17892.3	13321.8	74.5
2007/08	20496.4	14742.1	71.9
2008/09	18417.1	14494.3	59.2
2009/10	29914	15212.5	50.9
2010/11	42515.8	16417.6	38.6
2011/12	36418.7	18956.7	52.1
2012/13	19043.0	31673.5	166.3

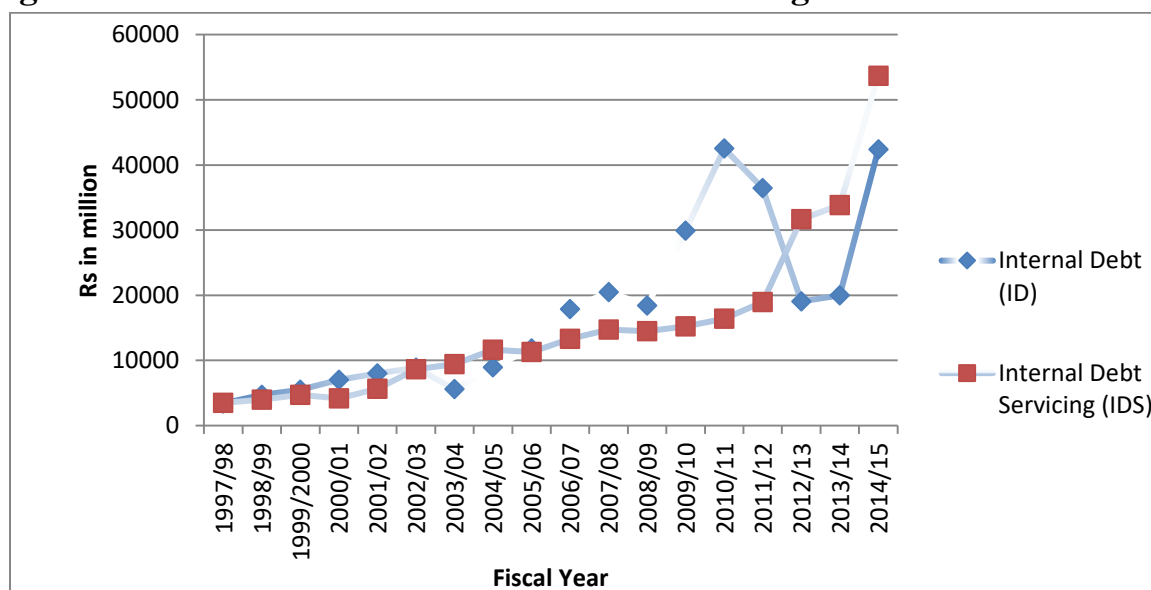
1	2	3	4
2013/14	19982.8	33825	169.3
2014/15	42367.5	53658.9	126.7
2015/16*	88000	-	-
Average			94.6

Note: An asterisk denotes estimated.

Source: Various Issues of Economic Survey from FY 1997/98 to 2015/16 and Macroeconomic Indicators of Nepal 2016, NRB.

Table 4.9 shows the internal debt servicing and its percentage with internal debt. As far as measuring the internal debt burden, it shows internal debt servicing is growing faster than that of internal debt receiving. Observing the data we can find out the volume of internal debt was Rs.3400 million in fiscal year 1997/98 and it increased to 42367.5 million in FY 2014/15. Likewise internal debt servicing is also gone up from Rs.3481.6 million to Rs. 53658.9 million in fiscal year 2014/15. Internal debt servicing as percent of internal debt was 102.4 in FY 1997/98 and it is increased to 126.7 percent in FY 2014/15. All these trend shows Nepal's fourth coming days will be change into free of debt burden of these situation is running up continuously.

Figure 4.5 Trend of Annual Internal Debt Servicing and Internal Debt



Source: Various Issues of Economic Survey from FY 1997/98 to 2015/16 and Macroeconomic Indicators of Nepal 2016, NRB.

4.2.5 External Debt Flow and its Annual Servicing

One of the main features of budgetary system in Nepal is deficit budget in which large proportion of it is fulfilled by external loan. Here, the ratio of external outstanding debt to GDP has grown up and creating adverse situation in the economy, which requires serious thinking for its solution. Here, the compare of annual flow of external debt with annual debt servicing obligation is shown by table 4.10

Table 4.10: External debt flow and its servicing (NRs. in million)

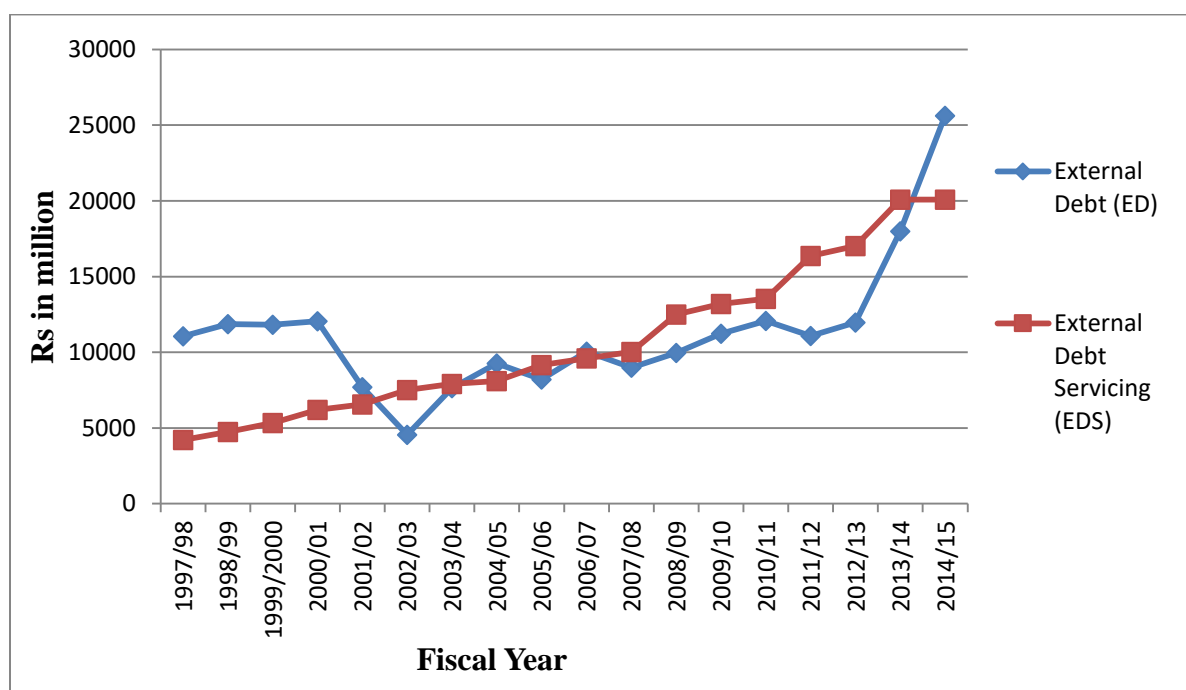
Fiscal Year	External Debt (ED)	External Debt Servicing (EDS)	EDS as Percentage of ED
1997/98	11054.4	4201.2	38.0
1998/99	11852.4	4745.5	40.0
1999/00	11812.2	5321.4	45.1
2000/01	12044	6201.4	51.5
2001/02	7698.7	6567.5	85.3
2002/03	4546.4	7519.2	165.4
2003/04	7629	7908.9	103.7
2004/05	9266.1	8099.9	87.4
2005/06	8214.4	9150.8	111.4
2006/07	10053.5	9594.5	95.4
2007/08	8979.9	10014.7	111.5
2008/09	9968.8	12494	125.3
2009/10	11223.4	13201.1	117.6
2010/11	12075.6	13540.0	112.1
2011/12	11083.1	16363.2	147.6
2012/13	11969.4	17013.4	142.1
2013/14	17998.8	20089.8	111.6
2014/15	25615.6	20077.9	78.4
2015/16*	119440	-	-
Average Growth Rate			98.3

Note: An asterisk denotes estimated.

Source: Various Issues of Economic Survey from FY 1997/98 to 2015/16 and Macroeconomic Indicators of Nepal 2016, NRB.

Table 4.10 shows, the external debt was Rs.11054.4 million in 1997/98 and has increased to Rs.25615.6 million in 2014/15 million. The amount of external debt servicing has increased from Rs.4201.2 million in 1997/98 to Rs 20077.9 million in 2014/15. And external debt servicing as percentage of external debt was 38 percent in 1997/98 whereas it is increased to 78.4 in FY 2014/15 and the average of review period stood at 98.3 percent. This shows that the external debt is more than the debt servicing which causes the rise in outstanding external debt.

Figure 4.6: Trend of External debt flow and its servicing



Source: Various Issues of Economic Survey from FY 1997/98 to 2015/16 and Macroeconomic Indicators of Nepal 2016, NRB.

4.2.6 External Debt Servicing, Export Earning and GDP Ratio

Here, the attempt has been made to compute the ratio of external debt servicing to export earnings and debt servicing to GDP. In Nepal, the large proportion of GDP and export earning go back to foreign countries while servicing. The table 4.11 shows the external debt burden in terms of export earning, debt servicing and ratio to GDP.

Table 4.11: External Debt Servicing, Export Earning and GDP ratio
(NRs. in million)

Fiscal Year	GDP	External Debt Servicing	Export	EDS as percentage of GDP	EDS as percentage of Export
1997/98	289798	4201.2	27514.5	1.4	15.3
1998/99	330018	4745.5	35676.3	1.4	13.3
1999/00	366251	5321.4	49822.7	1.5	10.7
2000/01	394052	6201.4	55654.1	1.6	11.1
2001/02	406138	6567.5	46944.8	1.6	14.0
2002/03	437546	7519.2	49930.6	1.7	15.1
2003/04	474919	7908.9	53910.7	1.7	14.7
2004/05	508651	8099.9	58705.7	1.6	13.8
2005/06	557869	9150.8	60234.1	1.6	15.2
2006/07	696989	9594.5	59383.2	1.4	16.2
2007/08	792131	10014.7	59266.7	1.3	16.9
2008/09	988272.0	12494.0	67697.5	1.3	18.5
2009/10	1192774	13201.1	60824.0	1.1	21.7
2010/11	1374953	13540.0	64338.5	1.0	21.0
2011/12	1527344	16363.2	74261.0	1.1	22.0
2012/13	1695011	17013.4	76917.2	1.0	22.1
2013/14	1964540	20089.8	91991.3	1.0	21.8
2014/15	2120470	20077.9	85319.1	0.9	23.5
2015/16*	2248691	-	70117.1		
Average annual growth rate		9.9%	7.7%	1.3	17.0

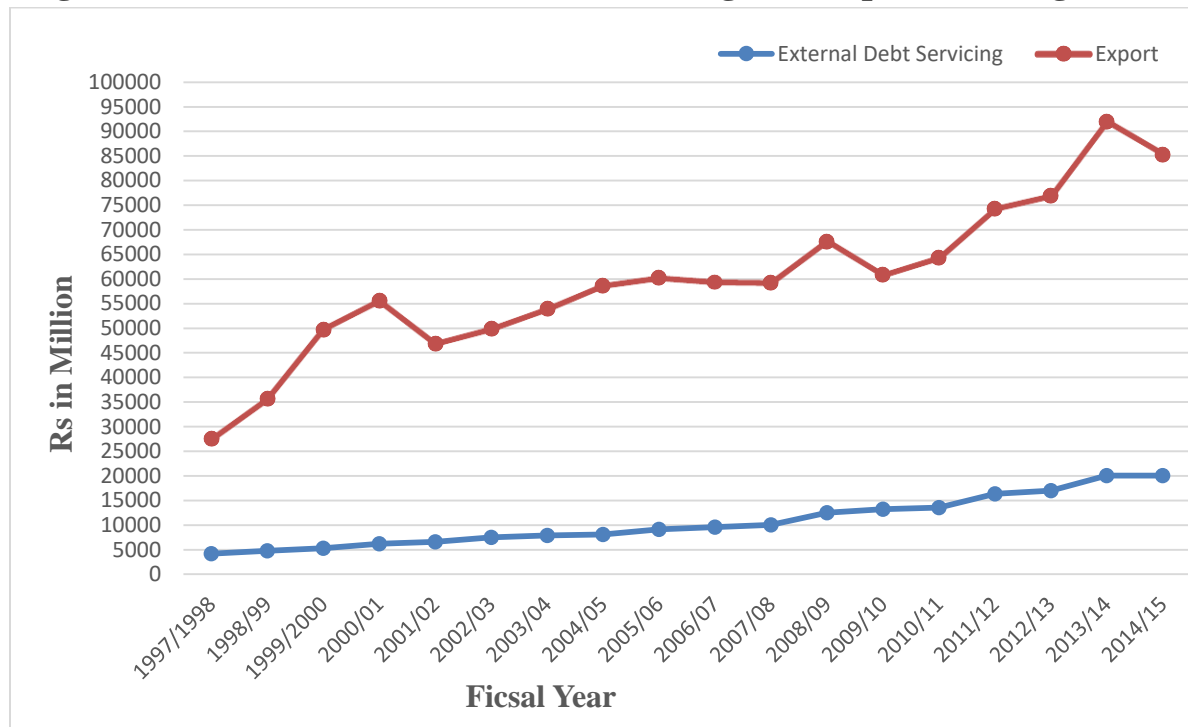
Note: An asterisk denotes estimated.

Source: Various Issues of Economic Survey from FY 1997/98 to 2015/16 and Macroeconomic Indicators of Nepal 2016, NRB.

Table 4.11 shows the magnitude of export earning was Rs.27514.5 million in 1997/98 which has increased to Rs.85319.1 million in 2014/15. whereas external debt servicing amount was Rs.4201.2 million in 1997/98 and increased to Rs.20077.9 million in 2014/15. The average annual growth rate of export stood at 7.7% and the average annual growth rate of external debt

servicing stood at 9.9% which shows that the annual increase in export is less than the annual increase in external debt servicing.

Figure 4.7: Trend of External Debt Servicing and Export Earning



Source: Various Issues of Economic Survey from FY 1997/98 to 2015/16 and Macroeconomic Indicators of Nepal 2016, NRB.

4.2.7 Outstanding External Debt and Import

The relationship between external debt burden and import payments on their average annual growth rate and the ratio of imports payments to external debt are shown in table 4.12.

Table 4.12: Ratio of External Outstanding Debt and Import Payment
(NRs. in million)

Fiscal Year	External Outstanding Debt (EOD)	Import	Imports as percentage of EOD
1	2	3	4
1997/98	161208	89002.0	55.2
1998/99	169465.9	87525.3	51.6

1	2	3	4
1999/00	190691.2	108494.9	56.9
2000/01	200404.6	115687.2	57.7
2001/02	220125.6	107389.0	48.8
2002/03	223433.2	124352.1	55.7
2003/04	232779.3	136277.1	58.5
2004/05	219641.9	149473.6	68.1
2005/06	233968.6	173780.3	74.3
2006/07	216628.9	194694.6	89.9
2007/08	242060.6	221937.8	91.7
2008/09	277000	284469.6	102.7
2009/10	256243.3	374335.2	146.1
2010/11	259501.1	396175.5	152.7
2011/12	309287.0	461667.7	149.3
2012/13	333442.0	556740.1	167.0
2013/14	346819.1	714365.9	206.0
2014/15	343261.8	774684.2	225.7
2015/16*	374300	773599.1	206.67
Average Annual Growth Rate	4.8%	14.0%	103.2

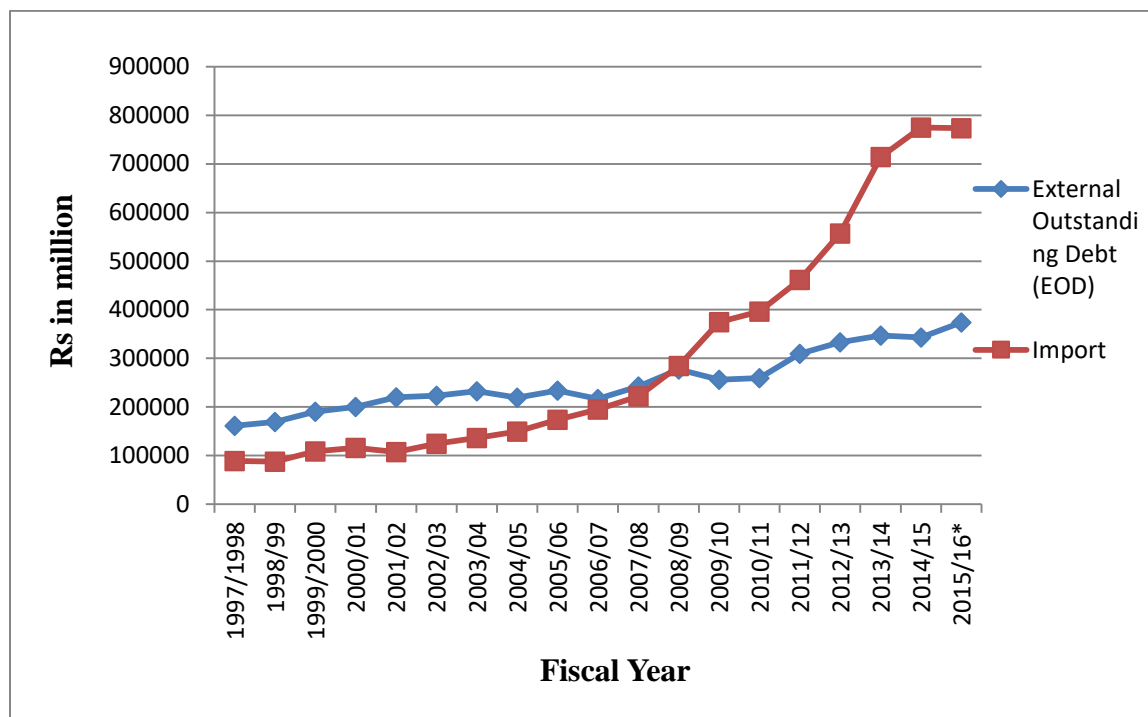
Note: An asterisk denotes preliminary data.

Source: Various Issues of Economic Survey from FY 1997/98 to 2015/16 and Macroeconomic Indicators of Nepal 2016, NRB.

Table 4.12 shows that the external outstanding debt in FY 1997/98 was 161208 million whereas in 2014/15 it increased to 343261.8 million with average annual growth rate of 4.8 percent which indicates the serious problem in external debt burden of Nepal. On the other hand, the magnitude of import payment was Rs 89002.0 million in 1997/98 and has gone up to Rs 774684.2 million in 2014/15 with the 14 percentage of average annual growth rate. This shows the large proportion of foreign exchange transferred to foreign countries for import of goods and services. The table also shows the imports payment as percentage of External outstanding debt was 55.2 percent in FY 1997/98 which increased to 225.7 percent in FY 2014/15 with average of 103.2 percent in

review period. The purpose of external debt is not going on right direction and balance of payments is hampered.

Figure 4.8: External Outstanding Debt and Import Payment



Source: Various Issues of Economic Survey from FY 1997/98 to 2015/16 and Macroeconomic Indicators of Nepal 2016, NRB.

4.3 Resource Gap in the Financing of Development Expenditure in Nepal

The limited mobilization of internal resources is the main obstacle of the development program in Nepal. So that resource gap in Nepalese economy has always been a common phenomenon. Nepal is facing serious and growing problem of resource gap. This is because of the growth trend of the total expenditure and its revenue generation capacity. The annual absolute volume of government expenditure has outpaced its revenue collection resulting financial resource gap in budget of the government. On the other hand, a foreign aid can't be received as expected; export trade tendency is not so encouraging which also leads budgetary deficits.

In Nepal, marginal propensity to save is low and tax evasion is widespread. The annual growth rate of the total expenditure and that of its revenue are not keeping in the same face. The annual absolute volume of government has outpaced its revenue collection resulting financial resources gap in budget of the government. Similarly, foreign aid can't be received and our export trade is not so encouraging, with ultimately leads to the budgetary deficit.

Table 4.13: Different Scenarios of Resource Gap

(NRs. in million)

Fiscal year	Government income(a)	Annual growth rate of GI (%)	Government expenditure (b)	Annual growth rate of GE (%)	Scenario (I) budget deficit (b-a)	Annual growth of FD (%)	Foreign Grant (c)	Annual growth rate of FG (%)	Scenario (II) Deficit excluding foreign grant (I+C)	Annual growth of BD (%)
1997/98	38340.5	-	56118.3	-	17777.8	-	5402.6	-	23180.4	-
1998/99	41587.9	8	59579.0	6	17991.1	1	4336.6	-19.7	22327.7	-3.7
1999/00	48605.5	17	66272.5	11	17667	-2	5711.7	31.7	23378.7	4.7
2000/01	55647	14	79835.1	20	24188.1	37	6753.4	18.2	30941.5	32.3
2001/02	57131.7	3	80072.1	0	22940.4	-5	6686.2	-1.0	29626.6	-4.2
2002/03	67568.9	18	84006.1	5	16437.2	-28	11339.1	69.6	27776.3	-6.2
2003/04	73514.4	9	89442.6	6	15928.2	-3	11283.4	-0.5	27211.6	-2.0
2004/05	84513.9	15	102560.4	15	18046.5	13	14391.2	27.5	32437.7	19.2
2005/06	86109.6	2	110889.2	8	24779.6	37	13827.5	-3.9	38607.1	19.0
2006/07	103513	20	133604.6	20	30091.6	21	15800.8	14.3	45892.4	18.9
2007/08	128273.3	24	161350.0	21	33076.7	10	20320.7	28.6	53397.4	16.4
2008/09	169857.3	32	219660.0	36	49802.7	51	26382.9	29.8	76185.6	42.7
2009/10	216536.1	27	259680.9	18	43144.8	-13	38546.0	46.1	81690.8	7.2
2010/11	255741.0	13	295363.0	14	39622	-8	45922.0	19.1	85544	4.7
2011/12	287984.0	17	339168.3	15	51184.3	29	40812.0	-11.1	91996.3	7.5
2012/13	333927.0	16	358638.0	6	24711	-52	35529.0	-12.9	60240	-34.5
2013/14	396310.0	18	435050.0	21	38740	57	33960.1	-4.4	72700.1	20.7
2014/15	448330.0	13	531550.0	22	83220	115	36374.2	7.1	119594.2	64.5
2015/16*	587940.0		819460	32.22	231520		110929.4		342449.4	
Average Annual growth rate		16		14		15		14.0		12.2

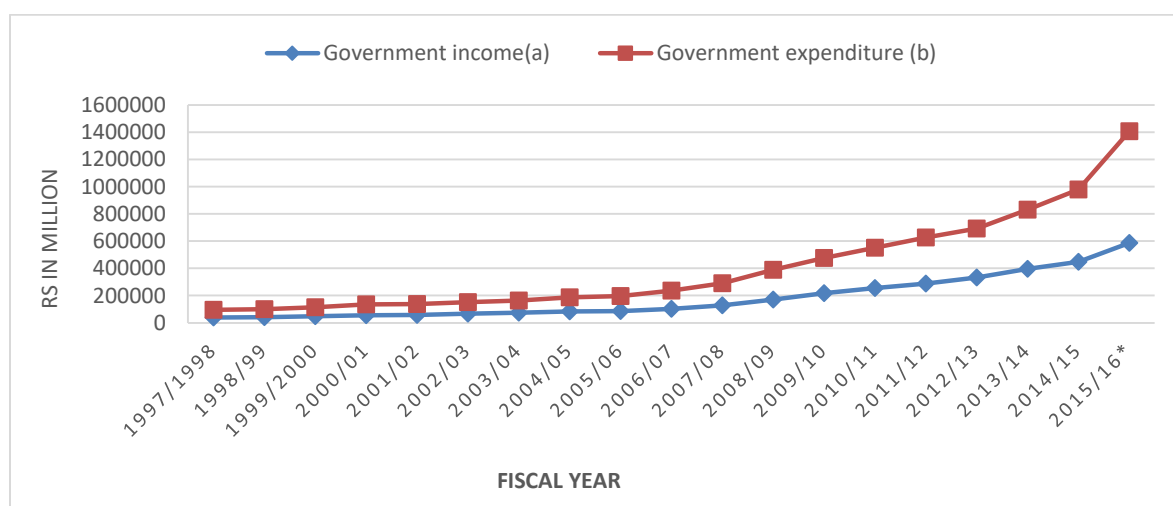
Note: An asterisk denotes preliminary data .

Source: Various Issues of Economic Survey from FY 1997/98 to 2015/16.

Table 4.13 first scenario shows the trends in income and expenditure in Nepal. The revenue and expenditure both are continuously increasing each and every year. The total expenditure is higher than total income which shows increasing tendency of fiscal deficit. But the annual growth rate of government income is greater than the government expenditure. The amount of total expenditure was Rs. 56118.3 million in FY 1997/1998 has gone up to Rs. 531550 million in FY 2014/2015 whereas total income has increased from Rs. 32937.9 million in FY 1997/1998 to Rs. 448330 million in FY 2014/2015. This shows the public expenditure dominated to government income. The revenue gap was Rs.23180.4 million in the FY 1997/98. The government expenditure continuously increased than government revenue. In FY 2014/2015 the revenue gap increased to 490963.4 million. This indicates that the problem of resource gap is serious.

In the review period, the average annual growth rate of total expenditure has 14 percent whereas the average annual growth rate of income has stood at 16 percent. The foreign grant is not increasing in the desirable pace as it predicts where it was Rs.5402.6 million in 1997/98 and increased to Rs.36374.2 million in 2014/15. Budget deficit was Rs. 17777.8 million in 1997/98 and Rs. 83220 million in 2014/15 with the average annual growth rate 13.14 percent. It is happened due to the fluctuation of foreign grants.

Figure 4.9: Trend of Government Income and Expenditure



Source: Various Issues of Economic Survey from FY 1997/98 to 2015/16.

4. 3.2 Export– Import Gap

Export import gap is one of the main economic problems of Nepalese economy. Nepal being a least developed country exports limited goods such as garments, carpets etc. Major exportable goods are raw materials and food grains but import final goods as well as capital goods. Since the quantum of import is greater than export it creates negative balance in current account. The major factor of increase in external debt is the gap between export and import. The trends of export and import of Nepal is shown on the table 4.14 below.

Table 4.14 Export -Import Gap

(NRs. in Million)

Fiscal year	Export(E)	Growth rate of Export (%)	Import(I)	Growth rate of Import (%)	E- I gap	Growth rate of E-I gap (%)	Share of export to Import
1997/98	27513.5		89002.0		-61488.5		30.9
1998/99	35676.3	29.7	87525.3	-1.7	-51849.0	-15.7	40.8
1999/00	49822.7	39.7	108504.9	24.0	-58682.2	13.2	45.9
2000/01	55654.1	11.7	115867.2	6.8	-60033.1	2.3	48.0
2001/02	46944.8	-15.6	107389.0	-7.3	-60444.2	0.7	43.7
2002/03	49930.6	6.4	124352.1	15.8	-74421.5	23.1	40.2
2003/04	53910.7	8.0	136277.1	9.6	-82366.4	10.7	39.6
2004/05	58705.7	8.9	149473.6	9.7	-90767.9	10.2	39.3
2005/06	60234.1	2.6	173780.3	16.3	-113546.2	25.1	34.7
2006/07	59383.1	-1.4	194694.6	12.0	-135311.5	19.2	30.5
2007/08	59266.5	-0.2	221937.7	14.0	-162671.2	20.2	26.7
2008/09	67697.5	14.2	284469.6	28.2	-216772.1	33.3	23.8
2009/10	60824.0	-10.2	374335.2	31.6	-313511.2	44.6	16.2
2010/11	64338.5	5.8	396175.2	5.8	-331836.7	5.8	16.2
2011/12	74261.0	15.4	461667.7	16.5	-387406.7	16.7	16.1
2012/13	76917.1	3.6	556740.3	20.6	-479823.2	23.9	13.8
2013/14	91991.4	19.6	714365.8	28.3	-622374.4	29.7	12.9
2014/15	85319.1	-7.3	774684.2	8.4	-689365.1	10.8	11.0
2015/16*	70117.1	-17.8	773599.1	-0.1	- 703482	2	9.06

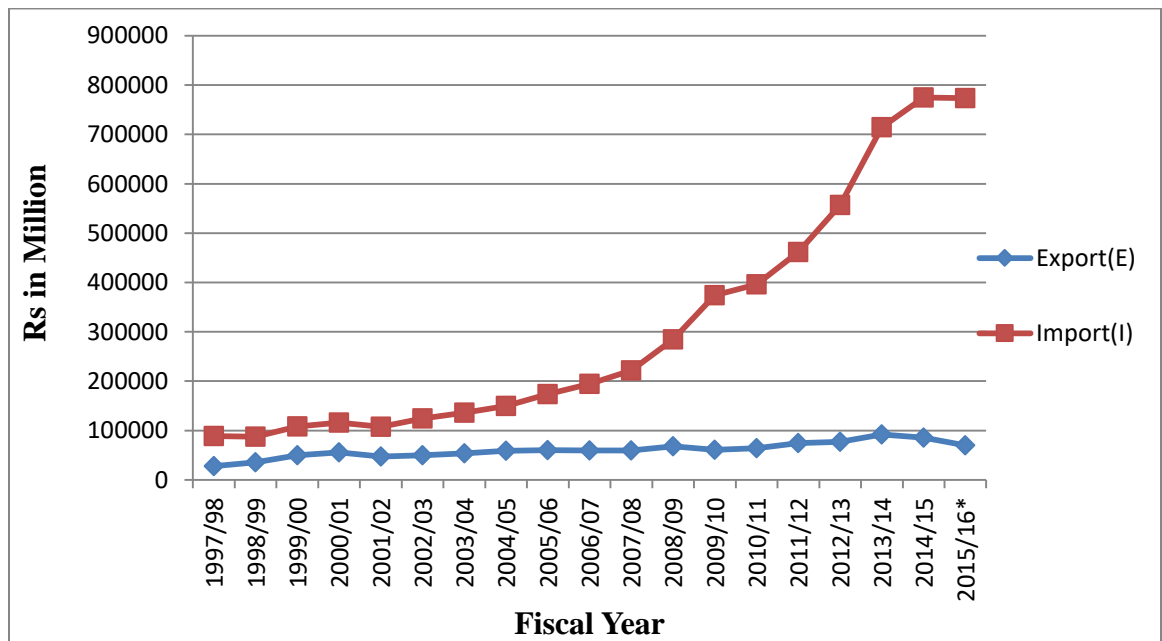
Average annual growth rate		7.7%		14.0%		16.10%	29.5
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Note: An asterisk denotes preliminary data.

Source: Quarterly Economic Bulletin 2016, NRB.

Table 4.14 shows that the total amount of export was Rs. 27153.5 million in 1997/98 which increases to Rs.85319.1 million in FY 2014/15. On the other side the total amount of import was Rs. 89002.0 million in 1997/98 which increases to Rs. 774684.2 million in FY 2014/15. The amount of export in FY 2014/15 is almost equal to the import of FY 1997/98 it shows the real gap between the export and import. The average annual growth rate of import is stood at 14% whereas the export stood at 7.7 percent. In export side there is fluctuating trend year by year, but import side, the trend is increasing mostly. This condition states that larger amount of revenue is going to match the export import gap which pushes the economy for further internal and external debt. The share of export to Import was 30.9 percent in FY 1997/98 whereas it declined to 11 percent in the FY 2014/15 which shows the rapid grow of import.

Figure 4.10 Trend of Export and Import



Source: Quarterly Economic Bulletin 2016, NRB.

4.3.3 Budget Deficit as Percentage of GDP

To analyze the budget deficit as percent of GDP is more important as the GDP is the main indicator of the economy, which includes different components of the economy and shows their performance. In this context, budget deficit as percent of GDP has decreased from 6.1 percent in 1997/98 to 3.9 percent in 2014/15 with average 4.1 percent in the review period. Government of Nepal has been financing its budget deficit through domestic and external debt mobilization. The inclusion of grants in government in government's revenue may not be appropriate because the amount of grants depends upon political consideration of countries, which may have been fluctuating character. Because it is determined by the various factor. Even then the amount of grant is included here, as it doesn't require repayment and therefore, it may be taken as good as revenue.

Table 4.15 Budget Deficit as Percentage of GDP

(NRs. in Million)

Fiscal Year	Nominal GDP at current Price	Budget Deficit	Budget Deficit as Percentage of GDP	Fiscal Deficit (excluding Foreign grant from income)	Fiscal Deficit as percentage of GDP
1	2	3	4	5	6
1997/98	289798	17777.8	6.1	23180.4	8.0
1998/99	330018	17991.1	5.5	22327.7	6.8
1999/00	366251	17667	4.8	23378.7	6.4
2000/01	394052	24188.1	6.1	30941.5	7.9
2001/02	406138	22940.4	5.6	29626.6	7.3
2002/03	437546	16437.2	3.8	27776.3	6.3
2003/04	474919	15928.2	3.4	27211.6	5.7
2004/05	508651	18046.5	3.5	32437.7	6.4
2005/06	557869	24779.6	4.4	38607.1	6.9
2006/07	696989	30091.6	4.3	45892.4	6.6
2007/08	792131	33076.7	4.2	53397.4	6.7
2008/09	988272	49802.7	5.0	76185.6	7.7
2009/10	1192774	43144.8	3.6	81690.8	6.8
2010/11	1374953	39622	2.9	85544	6.2
2011/12	1527344	51184.3	3.4	91996.3	6.0

1	2	3	4	5	6
2012/13	1695011	24711	1.5	60240	3.6
2013/14	1964540	38740	2.0	72700.1	3.7
2014/15	2120470	83220	3.9	119594.2	5.6
2015/16*	2248691	231520	-	342449.4	-
Average Annual Growth Rate			4.1		6.4

Note: An asterisk denotes preliminary data.

Source: Various Issues of Economic Survey from FY 1997/98 to 2015/16,
MoF/GoN

4.3.4 Public Debt, Development Expenditure and Debt Servicing

The increase in development expenditure is a reflection of the rising development activities of government of the development process. However the growth of development expenditure remained lower than the regular because of weak implementation of development projects resulting from political instability and lack of commitment.

The relation of outstanding Public Debt, development expenditure and total debt servicing has been shown in table 4.16.

Table 4.16: Development Expenditure, Outstanding Public Debt and Total Debt servicing

(NRs. in million)

Fiscal Year	Total Outstanding Debt (TOD)	Total Debt Servicing (TDS)	Development Expenditure (DE)	DE as percentage of TOD	DE as percentage of TDS
1	2	3	4	5	6
1997/98	199614.7	7682.8	28943.9	14.5	376.7
1998/99	219135.6	8723	22992.1	10.5	263.6
1999/00	244948.2	10032.8	25480.7	10.4	254.0
2000/01	260448.4	10388.4	28307.2	10.9	272.5
2001/02	293746.3	12205.2	24773.4	8.4	203.0
2002/03	308078.5	16181.3	22356.1	7.3	138.2
2003/04	318913	17338.8	23095.6	7.2	133.2

1	2	3	4	5	6
2004/05	307206.1	19751.3	27340.7	8.9	138.4
2005/06	328679.2	20423.5	29606.6	9.0	145.0
2006/07	320404.9	22916.3	39729.9	12.4	173.4
2007/08	353299.7	22760.6	53516.1	15.1	235.1
2008/09	402700	26988.3	47524.4	11.8	176.1
2009/10	404303	28413.6	40509.0	10.0	142.6
2010/11	443700.0	29957.6	47326.0	10.7	158.0
2011/12	523207.6	35319.9	51391.0	9.8	145.5
2012/13	545314.8	48866.7	54598.0	10.0	111.7
2013/14	553507.7	53914.8	66694.0	12.0	123.7
2014/15	544918.6	73722.8	88843.0	16.3	120.5
2015/16*	606700	-	208877		
Average Annual Growth Rate				10.9	183.9

Note: An asterisk denotes preliminary data.

Source: Various Issues of Economic Survey from FY 1997/98 to 2015/16, MoF/GoN and Macroeconomic Indicators of Nepal 2016, NRB.

Table 4.16 shows that the magnitude of outstanding public debt has increased from Rs.199614.7 million in 1997/98 to Rs 544918.6 million in FY 2014/15. This shows the real burden of debt of Nepal where development expenditure as percentage of total outstanding public debt was 14.50 percent in FY 1997/98 which increased to 16.3 percent at the end of study period.

CHAPETR V

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

The successive governments that came into existence after the people's agitation in 1990 have superfluously claimed to achieve miraculous development in Nepal. But the truth is just the opposite. The international comparison of macroeconomic indicators shows that Nepal's position is extremely counterpale. Nepal is facing the serious problem of inadequate mobilization of internal resources. And on the one hand, government has to invest in almost all sectors of economy where as on the other hand; there is a challenge to mobilize additional resources for meeting the growing expenditure. Summary of the findings are as follows:

- In the context of developing countries, it is playing vital role for socio-economic development because they have limit size of funds which is not sufficient for development financing, In case of Nepal, the landlocked nature and mountains topography are the major constrains for development of Nepal. Nepal is economically backward and also its economic performance is not satisfactory. Nepal is demanding more and more financial resources to bridge the growing resources in budget. So Public Debt is playing crucial role for development and fulfill the gap between income and expenditure. The study shows that the government borrowing is growing year by year along with the rise in public expenses.
- Basically, the study shows that there is lack of adequate fund for development financing. We have limited resources, small size GDP, lower per capita income, lack of infrastructure, saving investment gap, export import gap, revenue expenditure gap etc. so, the domestic resources are not sufficient to promote the rapid development of the economy. All these factors are major causes to increase external dependency.

- Borrowing is taking from two sources internal and external. In the internal sources treasury bills, special bonds, development bonds and national saving certificates are included. Large proportion of internal debt is taken by banking sectors from very beginning of the debt program. Similarly, in external sources Nepal is receiving borrowing in the form of bilateral and multilateral sources such as ADB, UNDP, WB, WHO, IMF etc.
- Nepal is facing the problem of financing due to ever increasing resource gap. The widening resource gap in the recent year has been cumulative effect on the deficiency of investment. Budgetary deficit is growing rapidly in every fiscal year and trend of grants is decreasing, which further increased in debt burden. Such factor helps to raise internal and external borrowing, for the developing countries like Nepal. External borrowing is growing in higher rate than internal borrowing, increasing trend of borrowing also increased debt servicing obligation. In the early stage of development higher resource gap itself would not have been a serious problem because of foreign grants but how the situation is just reserve, amount of grants decrease ding another. There are limited source of government revenue such as non-tax revenue, which is not sufficient for growing needs of expenditure, so it is necessary to burrowed fund through the internal and external sources.
- The government budgetary deficit is increasing each and every year. So, the trend of continuously increased in borrowing and debt servicing obligation in not good economic indicator for developing country like Nepal. Obviously, there are not any alternative sources for financing budgetary deficit so that the government is unable to reduce social-economic development of nation. The summaries of data analysis are as follows:
- In the FY 1997/98, government expenditure was Rs. 56118.3 million and it is increased to Rs 531550.0 million in the FY 2014/15. The average annual growth rate of government income in the study period is 16 percent whereas the average annual growth rate of government expenditure is 14 percent. The average annual growth rate of income is higher than the

average annual growth rate of expenditure but the absolute amount of government expenditure is higher than the income. This shows the financial resource gap, in which budget deficit has been increased from Rs. 17777.8 million to Rs. 83220 million with an average annual growth rate of 15 percent under the review period. And estimated budget deficit for FY 2015/16 is 231520 million.

- The total debt has been increasing from Rs. 14454.6 million to Rs. 67983.1 million. The share of external loan to budget deficit has been decreasing from 62.2 percent to 30.8 percent and share of internal loan has been increasing from 19.1 percent to 50.9 percent under the review period. The average annual growth rate of internal debt as percentage of budget deficit stood at 50.37 percent and the average annual growth rate of external debt as percentage of budget deficit stood at 40.15 percent under the review period.
- Main sources of financing deficit are loan and grant. In FY 1997/98 share of external borrowing was Rs. 11054.4 million whereas the share of internal borrowing was Rs.3400 million but in FY 2014/15, the amount of external borrowing rose to Rs. 25615.6 million and internal borrowing stood at Rs.42367.5 million. It shows that both sources of borrowing are increasing.
- A foreign grant is not increasing in the desirable pace as it predicts. Foreign grants has been increasing from Rs. 5402.6 million in fiscal year 1997/98 to Rs. 36374.2 million in 2014/15 with 14 percent average annual growth rate under the study period.
- In the study period FY 1997/98 to fiscal year 2014/15 the percentage share of total debt to GDP has been decreasing from 5 percent to 3.2 percent with average of 3.6 percent. Similarly, internal debt as percent of GDP was 1.2 percent in FY 1997/98 and increased to 2 percent in FY 2014/15 and 1.9 percent of average on study period. The external debt as percentage of GDP was 3.8 percent in FY 1997/98 and it decreased to 1.2 in FY 2014/15 with 1.7 percent average on the review period.

- In the study period, the average annual growth rate of outstanding total debt, internal debt and external debt are 6.3, 10.6 and 4.23 percent respectively. The share of external debt to GDP is in decreasing trends which reaches to 16.2 percent from 55.6 percent. Similarly, the share of internal debt to GDP is decreased with fluctuating nature from 13.3 percent in 1997/98 to 9.5 in 2014/15. And the share of total outstanding debt to GDP decreased to 25.7 percent from 68.9 percent in FY 1997/98.
- In the study period, the share of export of goods and services to Import declined from 30.9 to 11 percent which shows that the balance of trade is negative by 89 percent.

5.2 Conclusion

Public Debt refers to the obligation to pay money back to the persons, institutions, or country from whom it has obtained. It plays a valuable role in socio-economic development of a nation. Nepal started obtaining internal debt since FY 1961/62 and external debt since FY 1963/64 with the objectives of national development. Nepal's most development activities are depending upon the Public Debt especially external debt.

During the study period, it was found that government borrowing has been increased financed mostly on the unproductive sector including imports of goods and services hence government always lacks the revenue then borrows the new loan to pay the previous one. That's why, the Public Debt and its interest is growing rapidly. But addressing capacity for redemption the debt is not increasing in the same pace.

It is concluded that the average annual growth rate of GDP, revenue and export earnings are considerably low as compared with that of debt and its servicing obligation. Because of the misuse of borrowed funds, other things remaining the same there are symptoms of steadily falling into the debt trap.

Nevertheless the study concludes that the share of outstanding debt to GDP in the recent years seemed to have declined. It had remained at 68.9 percent

in FY 1997/98 and continued to fall in its succeeding years and arrived at 25.7 percent in FY 2014/15. The share of outstanding public debt to GDP remained away from worrying state as per international standard. Foreign loan and domestic debts that are accepted every year to finance fiscal deficit have further increased country's liability. In this context, it is necessary to think for assessing risks inherent in public debts and manage them accordingly.

5.3 Recommendations

In the Nepalese budgetary system Public Debt has meaningful place. To fulfill the gap between revenue and expenditure debt is using every year heavily. So, to rescue from the debt trap the effective utilization of Public Debt is necessary. After the study of Public Debt in Nepal during the period 1997/98 to 2014/15, the following recommendations are proposed to be a tool for the Public Debt management in Nepal:

- To minimize the resource gap, the government expenditure has to be controlled and allocated on the basis of national priority so that productivity may increase within stipulated time period.
- Government should use the external and internal debt on highly productive sectors which can contribute to pay back of the principle and interest and to help to generate the capital formation.
- Government should move towards fiscal imbalance and strong fiscal discipline through control of unproductive expenditure and maximizing revenue mobilization.
- The government should be active enough to maintain the strong policy of monitoring, evaluation and supervision which help to reduce corruption and to increase accountability, responsibility and implementation.
- Government should adopt the policy of trade but not aid for the economic development.

- Proper attention should be given to maintain macroeconomic stability of the country while taking both external and internal borrowing.
- The government should try to maintain balance between expenditure and revenue.
- Government should increase the debt servicing capacity of the country.
- The share of agricultural sector in developing expenditure is to be low, adequate attention must be given to this sector because majority of population is directly or indirectly dependent on it.
- The share of debt servicing is substantial in regular expenditure so, loan from external sources should be received only when needed. Foreign aid should be channelized in such investment programs which help improving the productive activity of the economy.
- A complete and vigorous cost benefit analysis must be done before receiving loan for any project from external sources as well as from domestic borrowings.
- To increase the Debt servicing capacity, Government should increase GDP growth, revenue growth and export earnings growth in sustainable path so that country will not trapped on the debt servicing problem.
- Government should be conscious about debt trap. To prevent from debt trap, government should create new debt servicing capacity. The inflowing loan should be utilized as possible as in productive areas.

Nepal has so many under-developed areas, where the role of government is dominating. Government should maintain the balance between urban and rural areas, agricultural and industrial sectors, trades and non- traded sector. The maintenance of such various unbalanced sectors of the

economy should be done through control of unproductive expenditure, big push through capital and proper utilization of resources of the under-developed areas. And Government should reduce foreign dependency emphasizing on export promotion, tourist attraction and import substitution policy.

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