

**AN ANALYSIS ON THE TREND AND
STRUCTURE OF PUBLIC DEBT
IN NEPAL**

A Thesis

Submitted to the Central Department of Economics,
Faculty of Humanities and Social Sciences,
Tribhuvan University, Kiritipur, Kathmandu, Nepal,
in Partial Fulfillment of the Requirements

for the Degree of

MASTERS OF ARTS

in

ECONOMICS

By

TARAKIRAN K.C.

T. U. Reg. No. 6-2-432-64-2003

Roll No. 22/063-65

Central Department of Economics

Tribhuvan, University

Kathmandu, Nepal

November, 2009

Date:- 2066-08-15

LETTER OF RECOMMENDATION

This is to certify that **Mr. Tarakiran K.C.** has prepared this thesis entitled “**AN ANALYSIS ON THE TREND AND STRUCTURE OF PUBLIC DEBT IN NEPAL**”, for partial fulfillment of the requirements for the **Degree of Masters of Arts in Economics** under my supervision.

This thesis is in the form as required by the Central Department of Economics, Tribhuvan University. It is forwarded to the research committee for evaluation and acceptance.

Dr. Pushpa Shrestha Malla
(Associate Professor)
Thesis Supervisor
CEDECON, TU

Date:- 30th November, 2009

Date:- 2066-08-22

APPROVAL LETTER

This thesis entitled “**AN ANALYSIS ON THE TREND AND STRUCTURE OF PUBLIC DEBT IN NEPAL**”, submitted by **Mr. Tarakiran K.C.** has been accepted as partial fulfillment of the requirements for the **Degree of Masters of Arts in Economics** and here by the committee.

Thesis Committee:

Chairman

Prof. Dr. Rudra Prashad Upadhyay
Head, CEDECON

External Examiner

Associate Prof. Dr. Ram Prasad Gyanwaly

Thesis Supervisor

Associate Prof. Dr. Pushpa Shrestha Malla

Date: - 7th December, 2009

ACKNOWLEDGEMENT

I am really pleased to submit the thesis entitled, **“AN ANALYSIS ON THE TREND AND STRUCTURE OF PUBLIC DEBT IN NEPAL”**, for the partial fulfillment of Master’s Degree in Economics.

Firstly, I would like to pay special tribute and extend thanks to my honorable supervisor Associate Prof. Dr. Pushpa Shrestha Malla. It’s her consistent guidance, invaluable suggestion, kind cooperation and motivation, which have make me diligent and outcome is the thesis. I am eternally indebted to her. I would like to express sincere gratitude to Prof. Dr. Rudra Prasad Upadhyay, Head of Central Department of Economics. Similarly, my thanks go to respected teachers and staffs of CEDECON.

I am very much pleased to extend my sincere gratitude to my parents Mr. Arjun Bahadur Kunwar, Mrs. Reshama Kunwar, Brothers Surya Bahadur Kunwar, Chandra Bahadur Kunwar and Sister Sushila Thapa who have been always motivating, facilitating and inspiring me to do well. My sincere thanks goes to brothers Khim Bahadur Kunwar, Rajendra Bahadur Kunwar, Madhab Kunwar, Prakash G.C and Arjun Kathiwada who give assisting hand during this thesis preparation.

I cannot stop without expressing my gratefulness to my maternal uncle Gorakh Bahadur Singh and Aunt Sarada Singh, for their valuable suggestion and kindly cooperation throughout the study period.

Last but not the least, I would like to express special thanks to teaching and non teaching staffs of Shree Janak Primary School, Gulmi, Shree Prithvi Higher Secondary School, Gulmi, Brilliant Higher Secondary School, Kathmandu and Madan Bhandari Memorial College, Kathmandu; staffs of central library, TU for their cooperation.; all those persons who have directly or indirectly provided me assisting hands during my study period.

I am highly indebted to all those whose published and unpublished materials have been used while conducting this task.

CONTENTS

Letter of Recommendation	I
Approval Letter	II
Acknowledgement	III
Contents	IV
List of Tables	VII
List of Figures	VIII
List of Abbreviations	IX

Chapter I: Introduction

1.1. General Background	1
1.2. Statement of the Problem	4
1.3. Objectives of the Study	5
1.4. Significance of the Study	5
1.5. Research Methodology	6
1.5.1. Research Design	6
1.5.2. Sample Size	7
1.5.3. Method of Data Collection	7
1.5.4. Method of Data Analysis	7
1.5.4.1. Simple Regression Analysis	7
1.5.5. Definitions of Terminology	8
1.6. Limitations of the Study	8
1.7. Organization of the Study	9

Chapter II: Literature Review

2.1. Introduction	10
-------------------	----

2.2. International Context	11
2.3. Nepalese Context	21

Chapter III: Trend and Structure of Public Debt in Nepal

3.1. Introduction	31
3.2. Trend of Fiscal Deficit and Budget Deficit	33
3.3. Debt for Financing Fiscal Deficit	38
3.4. Growth Trend of Government in Nepal	39
3.5. Trend of External Debt in Terms of Disbursement by Major Sources	41
3.6. Sectoral Allocation of Public Borrowing	44
3.7. Outstanding Public Debt in Nepal	46
3.8. Internal Outstanding Public Debt in Nepal	49
3.9. Empirical Analysis	52
3.9.1. GDP and Internal Debt	52
3.9.2. GDP and External Debt	53
3.9.3. GDP and Total Debt	53

Chapter IV: Burden of Public Debt in Nepal

4.1. Introduction	56
4.1.1. Burden of Internal Debt	58
4.1.2. Burden of External Debt	59
4.2. Issues of Debt Servicing in Nepal	60
4.3. Internal Debt Servicing as Percentage of GDP, Regular Expenditure and Total Revenue	64
4.4. Outstanding Public Debt, Capital Expenditure and Debt Servicing	65
4.5. Annual Internal Debt and Internal Debt Servicing	67
4.6. Annual External Debt and Debt Servicing in Nepal	69
4.7. External Debt Servicing and Export in Nepal	70
4.8. Outstanding External Debt and Import in Nepal	72

5.9. Problem of Debt Servicing and Its Management in Nepal	74
--	----

Chapter V: Summary, Conclusion and Recommendation

5.1. Summary	76
5.1.1. Resource Gap in Nepal	76
5.1.2. Trend of Government Borrowing in Nepal	76
5.1.3. Outstanding Public Debt in Nepal	77
5.1.4. Sectoral Allocation of Public Debt	77
5.1.5. Internal Borrowing in Nepal	77
5.1.6. Trend of External Debt in Terms of Disbursement by Major Sources	78
5.2. Conclusion	78
5.3. Recommendations	79
Bibliography	81

LIST OF TABLES

Table 1: Trend of Fiscal Deficit and Budget Deficit	34
Table 2: Resource Gap as percentage of GDP	36
Table 3: Public Debt as Percentage of Fiscal Deficit	38
Table 4: Growth Trend of Public Debt	40
Table 5: Trend of External Debt in Terms of Disbursement by Major Sources	42
Table 6: Sectoral Allocation of External Debt	45
Table 7: Outstanding Public Debt in Nepal	47
Table 8: Structure of Internal Net Outstanding Debt in Nepal	50
Table 9: Trends of Debt Servicing in Nepal	62
Table 10: Share of Internal Debt Servicing to GDP, Total Revenue and Regular Expenditure	65
Table 11: Outstanding Public Debt, Capital Expenditure and Debt Servicing	66
Table 12: Annual Debt Servicing as Percentage of Annual Debt Borrowing	68
Table 13: Trend of External Debt Servicing as Percentage of External Debt	70
Table 14: Share of External Debt Service to GDP and Export Earning	71
Table 15: External Outstanding Debt and Import Payment	73

LIST OF FIGURES

Figure 1: Trend of Government Revenue and Government Expenditure	35
Figure 2: Fiscal Deficit and Budget Deficit	37
Figure 3: Growth Trend of Government Debt in Nepal	41
Figure 4: Trend of External Debt in Terms of Disbursement by Major Sources	43
Figure 5: Total External Debt by Sector	46
Figure 6: Outstanding Public Debt in Nepal	48
Figure 7: Structure of Internal Net Outstanding Debt in Nepal	51
Figure 8: Trend of Debt Servicing in Nepal	63

LIST OF ABBREVIATIONS

ADB	Asian Development Bank
CBS	Central Bureau Of Statistics
CEDA	Center of Economic Development and Administration
CEDECON	Central Department of Economics
FY	Fiscal Year
GDP	Gross Domestic Produce
GON	Government Of Nepal
HIPC	Heavily Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IMF	International Monetary Fund
LDC _s	Least Developed Countries
UN	United Nation
MA	Masters in Arts
MOF	Ministry of Finance
NBR	Nepal Rastra Bank
NEFAS	Nepal Foundation of Advance Studies
OPEC	Organization of Petroleum Exporting Countries
PRGF	Poverty Reduction and Growth Facility
SDR	Special Drawing Right
TDS	Total Debt Service
TU	Tribhuvan University
UDN	Uganda Debt Network
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nation Development Fund
UNESCAP	United Nations Economic Commission for Asia and Pacific
WB	World Bank
%	Percentage