

ROLE OF PUBLIC DEBT ON ECONOMIC GROWTH OF NEPAL

A Thesis

Submitted to the

Central Department of Economics

Faculty of Humanities and Social Sciences

Tribhuvan University, Kirtipur, Kathmandu, Nepal

in Partial Fulfillment of the Requirements

For the Degree of

Master of Arts

in

ECONOMICS

Submitted by

Sabitra Nepal

Symbol No.: 280064

Roll No.: 313/068

TU. Regd. No.: 9-2-586-53-2008

Central Department of Economics

Tribhuvan University, Kirtipur

Kathmandu, Nepal

September, 2018

LETTER OF RECOMMENDATION

This thesis entitled **Role of Public Debt on Economic Growth of Nepal** has been completed by **Sabitra Nepal** under my supervision and guidance. I forward it with recommendation for approval.

Tara Prasad Bhusal
Associate Professor
(Thesis Supervisor)

Date:

APPROVAL SHEET

The Thesis entitled **Role of Public Debt on Economic Growth of Nepal** submitted by **Sabitra Nepal** has been accepted as Partial Fulfillment of the Requirements for the Degree of Master of Arts in Economics.

Thesis Committee

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

Dr. Yogesh Ranjit
Associate Professor
(External Examiner)

Associate Professor Tara Prasad Bhusal
(Thesis Supervisor)

Date:

ACKNOWLEDGEMENTS

I would like to thank **Associate Prof. Tara Prasad Bhusal** as a supervisor who helped with a great inspiration and guidance. I would like to express my gratefulness to **Prof. Dr. Kushum Shakya**, Head of Central Department of Economics who provided me the opportunity to write this thesis.

My veneration goes to all my respected teachers and personnel of central department of economics who conveyed their timely and significant suggestions for this thesis both at formal and informal meetings. I would also like to appreciate to different organizations, institutions and individuals who helped me in this matter.

I would like to express my gratitude and appreciation to my friends and family for their genuine support to complete this thesis.

Despite my utmost care and efforts, I bear the full responsibility for any errors and discrepancies that might have occurred in this study report.

Sabitra Nepal

TABLE OF CONTENTS

	Page No.
RECOMMENDATION LETTER	i
APPROVAL LETTER	ii
ACKNOWLEDGEMENTS	iii
TABLE OF CONTENTS	iv
LIST OF TABLES	vii
LIST OF FIGURES	viii
LIST OF ACRONYMS	ix
CHAPTER I: INTRODUCTION	1-4
1.1 Background of the Study	1
1.2 Statement of the Problem	2
1.3 Objectives of the Study	3
1.4 Significance of the Study	3
1.5 Limitations of the Study	4
1.6 Organization of the Study	
CHAPTER II: REVIEW OF LITERATURE	5-14
2.1 Theoretical review	5
2.2 International Context	8
2.3 Nepalese Context	9
2.4 Research Gap	13
CHAPTER III: RESEARCH METHODOLOGY	15-18
3.1 Research Design	15
3.2 Period of Study	15
3.3 Description of Model	
3.4 Descriptions of Variables	15
3.5 Nature and Sources of Data	17

3.6 Data Collection Procedures	17
3.7 Tools and Techniques of Data Analysis	18
CHAPTER IV: PRESENTATION AND ANALYSIS OF DATA	19-55
4.1 Trend and Structure of Public Debt	19
4.1.1 Public Borrowing and Deficit Financing	27
4.1.2 Resource Gap in Nepalese Economy	31
4.1.3 Public Debt for Financing Fiscal Deficit	35
4.1.4 Growth Trend in Public Debt	36
4.1.5 Pattern of Internal Net Outstanding Debt in Nepal	38
4.1.6 Pattern of External Debt in Nepal	40
4.1.7 Net Outstanding Debt	41
4.1.8 Public Debt as Percentage of Fiscal Deficit	42
4.1.9 Share of External and Internal Debt Servicing as Percentage of GDP	44
4.1.10 Trend of Regular Expenditure and Debt Servicing	46
4.1.11 Trend of Foreign Aid in Development Plan	48
4.1.12 Internal Debt Instruments of Nepalese Government	47
4.1.13 Situation of Debt Trap in Nepal	49
4.2 Burden of Public Debt in Nepal	51
4.3 Relation between GDP and Public Debt in Nepal	53
CHAPTER V: SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS	56-63
5.1 Summary of Findings	56
5.2 Conclusion	59
5.3 Recommendations	63
REFERENCES	

LIST OF TABLES

Table No.	Title	Page No.
4.1	Different Scenario of Resource Gap	26
4.2	Trend of Government Debt and Annual Growth Rate	30
4.3	Ownership Pattern of Government Bond and Treasury Bills	33
4.4	Pattern of External Debt in Terms of Disbursement by Major Sources	35
4.5	Net Outstanding Public Debt to GDP Ratio	37
4.6	Percentage of Debt in Fiscal Deficit	39
4.7	Internal and External Debt Servicing in Nepal	42
4.8	Regular Expenditure and Debt Servicing	44
4.9	Share of Foreign Aid in Development Expenditures in Economic Plans	46

LIST OF FIGURES

Figure No.	Title	Page No.
4.1	Different Scenario of Resource Gap	27
4.2	Trend of Government Debt and Annual Growth Rate	31
4.3	Percentage of Debt in Fiscal Deficit	40

LIST OF ACRONYMS

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