CHAPTER I
INTRODUCTION

1.1 Background of the Study

Economic development is the main goal of any developing country. To attain this goal, the government has to carry increasing investment. However, the governments of development countries have to face the problem of revenue gap. As a result government generally runs a deficit budget. So, almost all countries have to choose some form of public borrowing as a fiscal instrument to supplement their tax revenues. Public borrowings allow for higher level of investment than its saving can meet. It narrows down the gap between saving and investment required for a targeted growth rate. A government can borrow from both within an abroad creating public debt that need to be borne by the people. External borrowing has the major portion of the public debt in most developing countries. As the main concern of developing countries higher growth with stability can be attained only through the injection of heavy doze of investment, most of the developing countries are bound to use this fiscal tool. These countries are also taking this tool as a means to escape from the vicious circle of poverty.

The deficiency of capital in underdeveloped countries is a serious bottleneck for the development. The breaking of vicious circle of poverty created by capital deficiency and the requirement of heavy doze of development expenditure in developing countries can be meet by public borrowing. As Rostow has emphasized "underdeveloped countries are facing the deficiency of capital in relation to their population and natural resources. Most of the developing countries are characterized by deficiency of capital. To break the vicious circle of poverty and uplift a country with a self-sustaining growth, a large amount of initial investment is necessary. Thus the underdeveloped countries should emphasize stimulate and accelerate capital formation." (Rostow, 1952:3)

The government of developing country like Nepal has more responsibilities towards people in socio-economic infrastructure development such as health, education, drinking water, irrigation, transport, communication etc. Since these investment projects demand large amount of initial investment, the government should be involved in these projects. Even if the private sector is efficient, these projects do not attract the private sector because they lack immediate return. In the absence of private sector and increasing demand of modern state, the government expenditure exceeds revenue. In this connection, the deficit budget should be formulated by the government. The most appropriate method is the method of debt finance preferred by all the sate for mobilizing financial resources to bridge fiscal deficit in the government budget. (Barman, 1986:136)

Similarly, the government announces its policy and programs annually through the budget. In the budget, the government also announces the projects to be implemented and the required expenditure for the implementation and completion of such projects. Since the targeted projects should be completed during the prescribed period by mobilizing required resources, the government fulfils its expenditure need through public borrowing. (Thapa, 2005:68)

However, “Developing countries mobilize part of their resources by borrowing form inte3rnal as well as external sources to finance their development activities; these sources gradually build up the debt stock of the country. Such debt stock demands regular debt servicing, that is, principal and interest payment, which consumes scarce resources that can be used for financing development. Therefore, excessive deficits and heavy borrowing to finance that deficit drain out the resources of the developing countries. Liquidity is also involved while borrowing and servicing. Thus, both of these transactions are conducted in such a way that the country concerned always finds itself in a comfortable position with regard to liquidity. (Thapa, 2005:6)

The volume of public borrowing is also increasing in Nepal due to the growing public expenditure and increasing rate o inflation. The burden of public debt and debt servicing capacity is evaluated on the basis of poor economic growth rate in Nepal. In the liberal economic policies of Nepal, public borrowing is considered as most appropriate means of resource collection for development.

1.2 Statement of Problem

The need for public debt in Nepal is due to various reasons: increasing saving investment gap, increasing budgetary deficit, widening of current account deficit and increasing public outstanding debt with increasing high debt servicing obligation. Similarly, another reason for the public debt is increasing negative trade balance both in absolute terms and as percentage of GDP. However, when public debt has taken as the source of finance to cover the revenue gap, prudential norms should be sued. Due to excessive public debt without proper management, an alarming situation of debt trap should be faced by the economy. For the better public debt management, the export earning, the revenue growth and the real interest rate structure should be in favorable condition in future to pay off the debt. Thus, there are some factors that should be taken in consideration while taking public debt.

The study of the budgetary trend of past 18 years disclosed that the budget deficit is widening each year since the growth rate of government expenditure and revenue are not growing in the same rate. By this reason, Nepal has become an aid dependent country. The reliance on external assistance is increasing. More than 50% of development expenditure is financed through foreign assistance in most of the year between 1987/88 and 2004/05. External borrowing has been the major source of financing deficit in the government budgets. The external borrowing accounts about 80% of budgetary deficits in most of the years between 1990/91 and 2007/08 (Economic Surveys, various issues). Since the external debt accounts more than 85% of total debt, Nepal is heavily indebted from eternal debt.

Public debt has been considered as one of the major source of public finance for growth with stability in Nepal. It has to be evaluated carefully whether the public debt position is extremely necessary. What is the trend and structure of public in Nepal? Is the government taking prudential norms while taking public debt? How is the problem of debt servicing in Nepal? How the country can manage public debt properly?

These are various questions that the present study has addressed in the context of the public debt of Nepal.

1.3 Objectives of the Study

The main objectives of this study are:

1. To study and analyze trends and structure of borrowing of government.
2. To study and examine the burden of public debt for government.
3. To identify the role and impact of public borrowing in banking system.
4. To analyze determinants of public debt, problems of debt and debt servicing of government.
5. To provide suggestions to the concerned on the basis of major findings of the study.

1.4 Rationale of the Study

After the advent of the Keynesian economics, deficit budget has been a common phenomenon of both developed countries government. The government of Nepal has also been following deficit budget since last several year. As mentioned earlier, it is not only persistently increasing but also the outstanding level of debt is becoming higher and higher. The deficit budget is financed by the borrowing from internal and external sources. The increased volume of public debt highlight the national concern and raises the issues such as debt servicing capacity, level of indebtedness, debt sustainability, and debt trap situation of the economy. Therefore, the public debt management aspect has been the great concern for both the managers and economist as well.

In this connection so many economists and researchers have conducted research on this subject and have strongly recommended that public debt should be used on the productive schemes and programs. The government should not borrow for the sake of unproductive purposes. Previous researchers have remarked that the debt for regular expenditure of government should be discouraged. It is also argued that the increasing external borrowing is political strategic and non-reliable in future. In the absence of better debt management, the alarming situation of debt may come.

1.5 Limitations of the Study

The major limitations of this study are as follows:

1. The sample period is 18 years between 1990/91 to 2007/08 due to time and resource constraints.
2. This study is solely based on secondary data with no question of their reliability and validity.
3. This study has not attempted to examine the effect of public borrowing on macro-economic variables such as money supply, price level, employment, and poverty alleviation.
4. The macroeconomic performance of Nepal economy is determined by so many economic and non-economic factors such as geographical situation, Indian economic and policies, political instability, values and institutions of Nepalese society etc. These factors are not taken considered in the study.

1.6 Organization of the Study

This study is organized into five chapters. Each denoted to some aspect of the study of clearing and settlement system. The title of each of these chapters is as follows:

Chapter one consists of background, statement of problem, objective of the study, significance of the study, limitation of study and organization of study.

Chapter two includes the brief review of available literature on related topic.

Chapter three deals with the nature and serious of data research design, population and sample, data collection procedure and method of analysis.

Chapter four deals with the presentation and analysis of relevant data with the help of various tool and techniques.

Finally, **chapter five** incorporates summary, conclusion & recommendations of the study.

CHAPTER II
REVIEW OF LITERATURE

2.1 Introduction

This chapter reviews some of the relevant empirical literature found in the form of published books, articles, seminar papers, research reports and information found in the form of HTML/PDF in the Internet. It covers the debt structure and capability to meet debt obligations.

2.1.1 Conceptual review

2.1.2 Review of Related Articles, Journals and Thesis

2.1.1 Conceptual Review

Public borrowing is considered as subjugated issue of the government in terms of raising and disbursing the fund from borrowing both internally and externally. Public debt in modern age is not confined only to raise government fund, it is equally used to manage fiscal as well as monetary policy. Public debt is conceived as the fundamental part of macroeconomics since every borrowing affects the government fund, deficit financing, saving mobilization, inflation curbing, liquidity injecting, resources distribution etc. government borrows to assist the economy on its growth activities via capital accumulation and anti cyclical measures. On other hand central bank, manage the primary and secondary markets of the government debt securities so that the budgetary targets it self can also be achieved through its dealing.

In the context of Nepal, until the 18th centaury, there was no public debt but government provided some regulation to maintain public finances. Some instances of public debt in Nepal can be held during the time of Rana Bahadur Shah who borrowed a large sum of money for about Rs. 60, 00,000 from Indian merchants. In 1803 the government was forced to meet its expenses. A cash levy was imposed on a country wise basis to finance the repayment of debts incurred by King Rana Bahadur Shah. Prime Minister Junga Bahadur Rana came in power ant the development work was not incurred out. After the dawn of Democracy, the first five year plan was introduced in the year 1956. In this plan, most of the expenditure was incurred with the foreign grants. During that plan period, some deficit amount of Rs. 27.8 million was from surplus balance account and loan from Nepal Rastra Bank.

In Nepal, The government issued the first time securities treasury bills in the fiscal year 1961/62 and in the fiscal Year 1963/64 , the government for the first time floated securities (long term loan) for mobilizing saving to finance the country's economic development programmed and for giving compensation of forests and Birta land.

On February 12, 1964, the government floated development bond of Rs 13.10 million carrying interest rate 6 percent per year with maturity period of five years. In the same period, the government issued with the maturity period of 10 years amounting Rs 407 thousands and composition bonds for land acquisition with one percent interest rate per annum with the maturity period of 20 years amounting Rs. 5.56 million. The other component of the borrowing was from Nepal Rastra Bank as guranteed loans and special bonds. The government also started to borrow since 1984, by issuing national saving certificate, which amounted Rs. 500 million those years. Similarly in 1991, the government started to borrowing by issuing CB pass and other bonds, which to Rs 8478.10 million that year. Now, there are treasury bills, Development Bonds, National saving certificates and special bonds as the main sources of internal borrowing.

Similarly, Nepal has also started borrow from external sources since 1964/65. since then Nepal has to bridge financial resource gap in their budgetary position contributed to increase each year. The main sources of the external borrowing of Nepal are the government of the developed countries, international agencies and commercial bank mainly the IMF, world Bank, Asian Development Bank.

Public borrowing is applied for the maintenance of the balance between the expenditure and revenue. It is applied for financing economic development since under developed countries always face the problem of funds, which is reflected in a large extent and as ever increasing financial resource gap in the government budgetary. As a fiscal measure, public debt for resource gap in the government budgetary. As a fiscal measure, public debt for resource mobilization is of recent origin. Classical economists advocated balanced budget and therefore in their analysis the public borrowing was only for the productive purposes and permanent improvement but not for the current purposes. In term of the orthodox theory of public finance, the current expenses of the government should be financed entirely out of taxes and government expenditures, devoted to producing capital equipment thru fruit of which will subsequently be sold to purchase for fees, should be financed by loans. Nevertheless, in an economy where the policy of public debt becomes an integral part of a compensatory fiscal policy; it will not be possible to stick this orthodox conception of public finance for the maintenance of economic stability. Financing of public expenditure through loans in the context of a trade depression in an advanced country will be highly advantageous even if it does not result in the creation of productive capital equipment. Thus in the Keynesian theory of public debt is emphasized. Keynes' revolution brought change in the role of public borrowing. Keynes held the view increases in the public debt through multiple effects would raise the national income. It is because Keynes correlated public borrowing with deficit financing. He authorized the government to borrow for all purposes so that effective demand may also increase.

In case of under developed countries, taxation should cover at least current expenditure on normal government services. Borrowing is particularly appropriate to finance government expenditure which is otherwise directly productive. The government of under developed countries can raise resources through public loans in terms of two important methods. First, selling government security to the public that are bought and sold in the capital and money market and of which market process is quoted. This may be called market borrowing. And the second is the funds borrowed by the issue to the public. This is not negotiable and is called non- market borrowing.

The level of government borrowing is a function of the ability and willingness of persons and business to lend and the government’s power and intention to tax.

The developing countries like Nepal have to engage for socio – economic, infrastructures development like health, drinking water, transport, irrigation, communication, and power, which need huge initial investment. Here the government should also involve in other directly productive economic activities like establishing factories and running them. With the increasing role of government, the government expenditure exceeds revenue; a deficit arises in the budget of the government. The most appropriate method of debt finance preferred by all states for mobilizing financial resources to bridge fiscal deficits in the government budgetary.

The loan of modern government especially in the developing countries has been increased due to the government active participation in the economic development of their countries on the one hand and the limited availability of funds for investment from private sectors on the other hand. Thus, the investments from accelerating the role of capital formation for development purpose have led to the government to expand resources through public borrowing externally and internally.

It is widely that the mobilization of internal resources is an important factor for the development of economic condition of nation. Internal resources can be mobilized from the two sources. First, by collecting revenue (tax and non tax) and second is internal borrowing.

2.1.1.1 Importance of Public Borrowing

Public debt has great importance particularly in developing countries in view of increasing magnitude of fiscal imbalance. In the literature of public debt some economist has put forth some issues regarding burden of public debt.

Government has to spent every amount of money on the productive projects at the situation government can be repay the debt continuously. Priority fixation must be done rationally. Rational utilization of debt is necessary for to save the economy from depression. Public debt has been the single most important source of funds to finance the development plans of the government of Nepal. Raising sufficient funds in the form of public debt is, therefore, important for sustained economic growth and to end prolonged poverty. Since a failure to meet debt obligations could lead to serious economic crisis, managing public debt within a sustainable level in an important policy issue in itself. Higher debt level could contribute to higher growth, but it could also increase the probability of default.

2.1.1.2 Applied Process and Practices of Public Borrowing in Nepal

In Nepal, public debt, both domestic and foreign, has played an important role in financing overall budget deficit and public development expenditure. "Hindered by the escalating insurgency has directly contributed to lowdown in tourisms and other economic activities throughout the nation, economic growth has been significantly lower than envisaged by the Ninth Five Year Plan (FY 1997-FY 2002)and the Tenth Five Year Plan(FY2003-FY2007)."This could exacerbate the already narrow base for domestic resource mobilization. it is there imperative to contentiously monitor the sustainability of public debt in Nepal. In Nepal, debt management is the responsibility of the Ministry of Finance (MOF)and Nepal Rastra Bank(NRB). A Debt Management Unit (DMU) under the foreign aid coordination division of the MOF is responsible for recording loan detail and monitoring payments. The Financial comptroller General's Office (FCGO) records actual disbursements and authorizes payment on loans. External funds are received and foreign payments are made through NRB which records and monitors private sector loans and domestic debt instruments. The DMU received technical assistance grant support from the Department for International Development (DFID)of United Kingdom.

2.1.1.3 Area and Types of Public Borrowing

Public debt is an important source of financing in developing countries such as Nepal .as internal resource mobilization (revenue generation) is inadequate in comparison to resource requirements; public debt has been the alternative. Public debt includes internal and external borrowing of the government. It also covers loans received by public enterprises against Government guarantees. Deficit financing or the utilization of cash balances made available by Nepal Rastra Bank is also regarded as part of the public debt.

Internal debt consists of borrowings through securities such as Development Bonds, National saving certificates, Treasury Bills and other special bonds. These securities are to be repaid within a specified time.

External dept comprises loans and credits made available on concessional, semi-concessional or commercial terms from multilateral and bilateral sources .These loans include project loans, non-project loans, commodity loans, , relief loans and balance of payment support loans.

Most of the large development projects and activities are financed through loans provided by multilateral agencies and friendly countries .The purpose and use of each external loan are specified in the relevant loan agreement.

Project appraisal reports, which are an integral part of the loan agreement identifies the particular project, its objective and scope , activities to be undertaken , structure and organization of the project , cost estimates, classification of funds to be allocated to various categories , procurement and contact procedure, accounting and auditing system , benefits to be achieved from individual projects, and schedules of dept servicing and amortization.

2.1.1.4 Nature and Scope of Public Borrowing in Nepal

Nepal’s public borrowing position is projected to remain manageable but vigilance will be prudent on account of questions related to fiscal sustainability and currency composition of exports and foreign reserves. At the end of FY2001, total public debt stood at NRs248,313 million(table 22). External debt component of public debt has been discussed above. As for domestic debt, total DOD stood at NRs56,576 million at the end of FY2000. between FY1993 and FY2001, domestic (DOD) as percentage of GDP remain unchanged at 14%, but as percentage of Central Government Current revenue it declined from 161%to 120%. Bonds accounted for a third of total domestic DOD in FY2001, deposits about a quarter, treasury bills 15% and balance, other securities.

Among holders of domestic debt instruments, the share of banking system was close to 40%, little over 15 public, and the balance, other holders. Domestic debt service burden was high at 3-4% of GDP throughout the 1990s and about a third of centrl Government current revenue. Debt and debt service burden turns out to be havier if one looks together at both domestic and external debt although there was a marked improvement between FY1993 and FY2001. the important push factor contributing to increase of public debt was the primary deficits, especially discretionary primary balance. Other push factors included interest payment and exchange rate valuation adjustment of the foreign currency debt. The growth factor was a pull factor. Total public debt as a percentage of GDP declined marginally between FY1993 and FY2001, but as a percentage of revenue, it declined by a third. During 1990s, total public debt service burden was estimated at4-6% of GDP and 47-49% of central government current revenue.

Future requirements for external and domestic borrowing will differ significantly depending on growth assumptions. Under the high growth scenario, the nominal value of the total public debt is projected to increase by a factor of seven; mostly external total public debt/GDP ratio is projected to decline slightly, but the domestic ratio by 80% while the external debt ratio would actually increase by 20% from 50 % to 605. As percentage of central government current revenue, total public debt is projected to decline by about half to 319% between FY2001 and FY2020. all the ratios are lower for the low growth scenario. The external debt burden will clearly be increasing substantially if the country were to realize the high growth assumptions. A good part of the external burrowing is to fill the balance of payments deficit, which is likely to increase threefold as percentage of GDP to 13%. Most of the country risk linked to external vulnerability. NPV total national debt is projected to increase from NRs103, 584 million in FY 2001 to NRs491, 189 million in 2020 under high growth and NRs318,555 under low growth assumption. NPV of both domestic and external debts is projected to grow almost Five times by FY2020 under high growth assumption, the increase as expected being lower for lower growth scenario.

2.1.1.5 Historical Development of Public Borrowing in World & Nepal

The phenomenon of public borrowing was originated in Great Britain in 17th century where city merchant provided grants and loans to the government. In return, the received the privileges of a royal charter to fund the Bank of England, which latter becomes the Central Bank of England. Concepts and need of public arose simultaneously with the need of community development. In previous, most of the emperors take loon by the public for war financing. After the end of second world war many countries made free from colonial rule then there is need of funds, which pushed forward on the need of debts.

Concept of debt has simultaneously developed with the needs of state's development. Previously, the main function of state is taken to maintain the internal peace and prevent state from others attacks but, now this concept has totally ignored; every state must give emphasis for economic development as well as public welfare. To solve the problem of fund for development works public debt is using as a main measures. It is the result of mismatch between revenue and expenditure.

In the Nepalese Economic history, public debt is not that old. In history textbooks there are discrete references to the great king Prithivi Narayan shah, rising revenue and even burrowing from the public for the purpose of unifying the kingdom of Nepal. But the terms and amounts of burrowing are missing in those references. Nepal's experience of public debt is an on going and documented basis is fairly recent, in the process of obtaining debt .External debt from 1963/64 and internal debt from 1964. In fiscal year 1963/64 the government for the first time floated securities for mobilizing saving to finance the country's economic development programmes. So systematic internal debt services have been found out from 1964 in the budgetary provision of HMG/Nepal. Mainly in the Nepalese context, it is budgetary developments that precisely govern the size and composition of public debt.

MC Regmi has stated in his publication in titled "Economics History" that theirwas public debt but government provided some regulation to maintain public finance before 18th century. Some instances of public debt in Nepal can be held lining the time of Rana Bhadur Shah who borrowed a large sum of money (Rs,60,00,000) from Indian merchants. In 1803 government was forced to meet wide basis to finance the repayment of debts incurred by Rana Bhadur Shah, prime minister Jung Bhadur Rana came in power and development work was not incurred out. They had called the revenue for their own expense in luxurious life. There was no need of economic welfare for the people. After the dawn of democracy, the First Five Year Plan most the expenditure was incurred with the foreign grants. During that plan period same deficit amount of 27.8million was from surplus balance accounts and loans from NRB.

The government issued the first time securities treasury bills in the fiscal year 1961/62 and fiscal year 1963/64 the government for the first time floated securities (long term loan) for mobilizing saving to finance the country's economic development programmed and forgiving compensation of forest and Birta land on february12, 1964govrerment floated development bond of Rs, 13.10millioncarrying on interest rate 6% per year with maturity period of five year. In the same period, government issued compensation bonds for land acquisition with in interest rate of 3% per annum with the maturity period of 10 years amounting Rs.407 thousand and compition bonds for land acquisition with 1% interest rate per annum with maturity period of 20 years amounting Rs.5.56 million. Similarly, Nepal has to bridge financial resources gap in her budgetary position contributed to increase each year.

2.1.1.6 Limitation of Public Borrowing in Nepal

The developing country like Nepal has to engage for Socio-economic infrastructure development like health, drinking water, transportation, irrigation, communication and power which need huge initial investment. Here government should also involve in other directly productive economic activities like establishing factories and running them. With the increasing role of government like government expenditure exceeds revenue a deficit arise in the budget of the government. The most appropriate method of debt finance preferred by all states for mobilizing financial to bridge fiscal deficits in the government budgetary.

2.1.1.7 Legal Provision of Public Borrowing in Nepal

Many countries have appropriate legislation to deliver this outcome. Nevertheless the Public Debt(domestic Debt)act, 2059 fully allows delivering the sound Debt management practices in Nepal. It is effectively achieved by the agreement between MOG, HMG/N and NRB. This arrangement is supposed to have separation between monetary policy and government is debt management with MOF directly responsible for the latter and NRB responsible for the former. According to the Public Act 2059, the objective of debt management policy is to ensure that the cost of debt is as low as possible given a well balanced choice of risk and funds are collected in stipulated time. Public debt is a legal obligation on the part of government to make interest and/or amortization of payment to holder of designated claims in accordance with a defined temporal schedule. It is created through the government borrowing from individual, corporations, institutions and other government. It refer to loan arise by government within the country or outside the country. Every government like individual has to borrow when its expenditure exceeds its revenue. The receipt from the sale of financial instruments by the government to individual or firms, in the private sector to induce the private sector, or to make welfare payments or subsidies.(the new Palgrave, a dictionary of economics 1988)

The situation of higher expenditure than revenue in government finance is fiscal deficit. Though there are various sources of government to finance its expenditure, the stable one is taxation. But, due to the various limitations of taxation, and the requirement of large amount of development expenditure in UDCs like Nepal, the situation of fiscal deficit arises. The budget deficit is the revenue gap between total expenditure and total revenue plus foreign grants in the context of Nepal.

2.1.1.8 Sources of Borrowing

For an UDC like Nepal, the source of government borrowing is classified into two types: internal and external.

a) Internal Sources of Government Borrowings

Internally, the government may borrow from the banking and nonbanking sources. The government uses a number of debt instruments to raises funds domestically, which are described briefly as below.

b) Instruments Used for Internal Borrowing

Treasury Bills: The treasury bills are issued on the auction as specified in the issue calendar. The Treasury bill is most of the time purchased by commercial banks as a competitive bidder and others rarely as a non-competitive bidder. Treasury bill is issued on multiple price formats or pays your bid format. Thus, the Treasury bills auction could be divided into competitive and non-competitive categories allocating at least 15 percent of offered amount for the non-competitive bidders.

While issuing treasury bills the notice of auction would be published in the national daily news paper mentioning the necessary terms like series number, offered amount, taxable non taxable and maturity period, earnest money, issue date, bidding time, procedure and other conditions. This information would also be disseminated via Website of NRB.

Treasury Bills (TBs) are issued as promissory notes so that the buyer of TBS could purchase and sale these bills by endorsement as well as through the commercial banks. The face value will be repaid by the NRB at the maturity. The government of Nepal has issued 28 days, 91 days, 182 days and 364 days bills under this category.

c) Bonds

Long-term securities are issued as per the issue calendar. The Government of Nepal issues long term securities such as development bond, national saving certificates and citizen saving certificates as stock or promissory note. For issuance of these bonds, the notice would be published in the daily newspaper by mentioning the special features like type of bonds, amount issued, interest rate, maturity period, time limit, procedure and required conditions. This information would also be availed form central banks Website (www.nrb.org.np). The types of bond issued are described briefly hereunder.

I. ***Development Bond:*** The development bonds have been issued in face value at pre-determined interest rate. A notice would be published in the newspaper by mentioning the special features like type of bonds, amount, interest rate, and issue date, taxable/nontaxable condition, application time limit and others. These information would also be released in the central banks web site. These instruments generally issued for 3 years or more than 3 years maturity period for financing the development projects having long gestation period.

II. ***Special Bond:*** These are conditional promise to pay a specific sum of loan on specific dates. These instruments are specially issued in the case of sort position in the government cash flow.

These days the special bonds are issued for the duty drawback settlement.

d) National Saving Certificate and Citizen Saving Certificates:

Generally, these are non-marketable and tax exempted debt instruments usually issued for the public (Household sector). However, national saving certificates and citizen saving certificates in Nepal are markable as well as taxable securities as the moment. These certificates are sold in face value with pre-determined interest rate. For the issuance of the certificates, the notice would be published in the newspaper focusing the necessary terms and conditions.

c) External Sources of Government Borrowing

The external sources of government borrowing include: foreign government, international financial institutions, foreigners etc. The external sources are broadly classified into bilateral and multilateral sources. The agreement with foreign country and their institution are bilateral source whereas the international organizations such as World Bank, IMF, and ADB etc. are multilateral sources.

2.1.2 Review of Literature in International Context

The classical economic negative attitude towards public debt and they did not plead for increasing economic role of government. In stead they said that, 'let money fruiting on the pockets of the people'. According to them state has to perform its limited activities, maintenance of low and order, justice and social security. Classical economists like J.B. Say, J.S. Mill, T.R. Malthus and C.G. Bitable have given their argument that "Debt creates burden in the economy because of its unproductive nature".

The classical economic Adam Smith opposed any use of public debt. He looks public debt as leads to extravagance, encouraged resort to war and induced generally disadvantageous economic conditions for the nation, which employed it. Similarly, bestable(1964) observed, a nation cannot 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. In this context shiras opines, as government must remember that borrowing is not a short cut to prosperity and a policy of borrowing must be retreated except for what can reasonably be regarded as productive expenditure (Lemhi, 1995).

In case of public debt, classical economists were generally against the government borrowing but they accepted the government borrowing any for self – liquidity return generating projects. They favoured was minimum public expenditure and between taxation borrowing. They favoured taxation and borrowing them favoured taxation for the following reasons:

1. Deficit financing means an increase in public debt. Since it is easy method to obtaining income. Government is likely to be extravagant and irresponsible consequently, public debt will became a definite burden in the economy.
2. Payment of interest as public debt and refund of the principle will require additional taxation. It might prove to be difficult since government's power to tax is not unlimited.
3. Deficit financing might be produced currency deterioration and price inflation.

The classical philosophy propounded by Adam Smith and his supporters have viewed laissez- fair equates a sound and balanced budegetary policy that doesn't consider the fiscal deficit and hence public borrowing. The classical says that " just as private economic units should not run into a persistent deficit. Moreover they state if debts are indispensable and inevitable for a particular period of time it should be paid as soon as possible.

The classical economist Lerner (1955) viewed " the internal debt may not have direct money burden in a communality as a whole, since the payment of interest and interest to meet the debt burden involved simply transfer the purchasing power from are group of person to another to the extent the creditors and tax payers are the same threr many not be net burden at all on the community but to extent the creditors and tax payers belongs to different income groups the change in the distribution of income different section of the community may place. Generally the government bonds and securities holders are mostly rich people where as the burden of taxation fall both the rich as well as poor section to the community". Another economist Dalton's arguments as there is always a direst real burden of public debt because public securities are held mainly by the rich classes and progressive taxation is likely to be as sharply progressive as to counter balance the inequalities in the distribution of income.

In the literature of public debt some economists have make known some issues regarding burden of public debt. They give argument generally whether public debt inflicts on the economy and also it can be shifted to future generation or not. In this context the burden of public debt is divided between primary burden or financial burden may be taken as the loss of income of the people that arises because of taxation for mention the servicing cost of the debt. The secondary burden of debt emerges of account if the adverse effects of taxation upon the ability and willingness to work and on the capacity and willingness to save. This is real burden to the public debt .this burden of public debt can be explained in terms of " Pigou Effect" or " Asset Effct" and " Kaldor Effect". Pigou effect suggests that due to the purchase of government securities the financial asset of the investors increases that adversely affect the propensity to save in the economy. It may prove to be boom in a depression but is not always true in developing countries.

According Kaldoe Effect (1995) holding of the large debt not any adversely affects the willingness to save but it also adversely affects willingness to work in invest, "an increaser in the national debt can make the owners of government bond less wiling to work. One of the reasons for working, the earning of money to put away of the rainy day is weakened because there is mire put away already for rainy days".

After the great depression of 1930s, J.M. Keynes, who advocated for increasing government role in the economic activities by adopting deficit financing so that effective demand is created in the economy ensuring employment opportunities. He advanced the concept of under employment equilibrium and who effected a truly significant revision in the theory of public debt, Keynes argued that if debts are internally held, there is nothing to worry about their size, such debt involves merely a series of transfer payments and about economic stability at high levels of income and employment. Keynes also stressed and challenged the version of classical economist and hold opposite opinion on the subject of burden of public debt. He submits that there is no shift of the basic burden to the future generation because the sameposterity which pays the additional taxes will be benefited from the repayment of the debt.

Post Keynesian economist advanced their idea that government borrowing dies not always deprive the private economy of resources as for instance, in a period of widespread unemployment. It is also not accepted how that borrowing in a period of full employment must be inflationary. It depends on these circumstances if borrowing taps funds otherwise spent in consumption, it is not more inflationary then taxation. A large public debt, if internally held, poses many problems for the economy. they thinks that income, saving and investment are the crucial factor to achieve steady growth steady growth for developing countries but to provide every country with an opportunity to achieve steady growth, on the other side, people and the developed countries are enjoying high prosperity, high standard of living, high educational facilities etc. population problem is also not to serious economics.

Harrie(1974) Maintains, “ Public debt assures elasticity in money supply and agred that government expenditure could be productive and need not necessarily be wasteful and so case for public borrowing is strengthened”.

Similarly, Moulton (1943) considers public debt as a national asset rather than liability and says that it is essential for the prosperity of the country.

Post Keynesian economist Goode (1984) views 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. According to him, “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 to growth, while some expenditure usually classified as government consumption growth".

Burkhead has pointed out that classical and new classical argument is purely macro, based on the “one big family" analogy. We owe to ourselves; one man’s assets are another man’s liability and if we take into account economy, as whole assets will cancel out the liabilities.

The situation of foreign debt and internal debt is different because foreign debt needs foreign exchange for its debt servicing for which foreign exchange earning sector must be created effectively. The true burden of debt service on the debtor country thus depends to a substantial degree on how for the loans can be transferred into predictive investment.

E.D. Damor (1984) 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. Let,

T = Di

And t = T/Y

Where,

D= amount of debt outstanding at the begning of the year.

I = rate of interest paid on debt.

T = amount of taxes necessary to cover the interest change on debt.

T= fraction of income (Y) taken through tax to pay interest

T = T/Y

$= Di/Y$

$= LD/Y$

From the above equation it follows that tax rate necessary to pay interest on debt depends on the ratio of the size of debt multiplied by the rate of interest to income. This tax may be related to growth of income and the budget deficit. This relevant equation shows the burden of public debt,

T = 1

(1/i) (G/b)

$= i.b/G$

Where, G = rate of growth of income

B = Ratio of deficit to income

This equation shows the burden of debt would increase or decrease. When either ratio of deficit to income or rate of interest paid on debt increases then the burden of debt will also be increased. Or the burden of debt (t) and ratio of deficit to income (b) and rate of interest paid on debt has positive relationship. Likewise, the burden of debt (t) and rate of growth of income (G) has negative relationship.

In recent year, the objective of the government borrowing in developing countries is that it should be used as an instrument to mobilize saving of people which would otherwise have gone to idle or wastefully consumption. Public debt should be advocated for creating additional capacity and producing capital equipment. Generally, government borrows for the creation of infrastructures in the economy since it requires huge investment initially which cannot be met through only revenue collection. The aim of the government borrowing policy would be to help in strengthing the money and capital market, which in turn accelerate development and price stability. The government of a developing country tries to mobilize the saving of the community partly through the device of public borrowing in order to meet the financial of its development program.

In a book published in 1999 " the least developed Report" pointed out recent trends in the external indebtedness of LDCs and concludes that “Most debtor LDCs have not yet reached an exit from the debt destructing process. With the effects of the global financial crisis on commodity prices, such a goal has in fact moved further out of reach, unless more generous and flexible action to undertaken under the Heavily Indebted poor Countries initiative. The decline in commodity prices – prices which are projects to remain depressed over the next several years is likely to dampen export prospects for many LDCs thus further weakening their debt – servicing capacity".

Munla,R.A.(1992) in his article entitled " external debt policy" has analysis the origin of debt problems and explained. 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 funds as a positive development. Creditors were able to identify new investment out less and deters could acquire funds for development purposes".

He again explained that an external debt crisis was due to ;

1. A drastic deterioration in external economic environment in the form of higher interest rates, lower commodity price and serve recession in the industrialized economies,
2. Economic mismanagement and policy errors in debtors countries; and
3. Excessive lending by commercial banks to some countries, with little regard to country risk limits.

In this article Munla contributed towards principle of the strategy and pointed out three fundamental principles which are:

1. Debtor countries need to pursue strong adjustment programs, supported by determined structural reforms, aimed at increasing domestic resources mobilization. Attracting non – debt creation flows, and reduving impediments to growth.

2. Creditors and diners need to ensure to provision of adequate external financing in support of such programs on a case by case basis; and
3. The international economic environment must be conducive to the success of these efforts.

2.1.3 Review of Empirical Literature in Nepalese context

In review of literature on public debt in Nepalese context some of the students of master level specially say, have or university and some have preceded to male their dissertation and article on public debt. Some of these have focused its structure and importance where others have in its burden and impact in inflation, employment and national solvency etc. these thesis paper and articles have also enriched the importance, role, need and scope of public debt in macro economy, however, the student of economic and to make a thesis on such like context but it emphasis the Nepalese system and practice on public debt of Nepal.

Joshi, Ram (1982) analyzed the structure of public debt, debt service with respect to GDP, interest, export of goods and services, grants etc taking the time series date of the period 1970/71 – 1981/82. Simple statistical tools such as average, percentages, correlation, least square equations and graphical presentations are used in his study. He concluded that foreign loan is growing rapidly and significance of the debt to finance the budgetary deficit is high. He recommended for the use of more fiscal instruments and monitoring of rate of interest on bond in accordance to the inflation rates etc.

Khatri, Purna Bahadur (1984) analyzed the pattern of internal borrowing and its burden in relation to GDP, total tax revenue and total interest receipt of the government by talking time series data covering the period of 1970/71 – 1981/82. He used simple analytical tools such as percentage, average, ratio etc in his analysis. He concluded that in the pattern of ownership of government bonds, NRB had the major holding (around 54%) of total outstanding government bonds and the individuals have around 4% in 1982, He also concluded that the growth rate of national income was less than the rate of growth of public debt. Lastly, he recommended for building bond market and use of bond instrument for monetary management.

Upadhaya, K.P (1985) conducted a study under the organization and arrangement of Center for Economic Development and Administration (CFDA). In that study, he analyzed the trend and structure of external borrowing and its servicing capacity in Nepal by taking the time series data of the period 1970/71- 1984/85. In the analysis, he concluded that the debt service ratio has showed an increasing trend in the study period due to mainly of the payment for debt service by external debt. Export earnings were not adequate to cover the debt service in that period. He recommended using corrective measures to reduce the increasing indebtness of Nepal.

Neupane G.P (1993) has analyzed the external debt servicing capacity of Nepal by taking the time series date of the period 1975-1991. He used simple tools such as ratio and percentage in the analysis. He arrived to the following conclusion form study.

1. The amount of external debt was growing over time covered by the study.
2. The dependency of government budget in foreign loan is increasing.
3. The debt service ratio is low which is due to the easy availability of foreign loan at a concessional rate of interest in the form of bilateral and multilateral loan along with long repayment period.
4. The low growth rate of per capital GDP along with current account deficit to FDP ratio, outstanding debt to GDP ratio exports to GDP ratio has crossed the critical limit.
5. Some of the borrowing capital has been invested in infrastructure development such as communication, irrigation, road, health, and hydroelectricity. Despite the growing foreign loan, the economy's growth rate is slow and there is higher trade deficit. The easily available foreign capital has affected negatively to the generation of domestic saving.

The recommendation of the study is that the state should not depend on international organization for soft loan because they impose term and conditions. The resources of public debt should be invested in the project of hydroelectricity, fertilizer, paper, cotton and textile etc, which reduce the trade deficit in future. He has further suggested for the monitoring and evaluation of foreign loan financed projects.

Sharma, Gunanidhi (1998) has analyzed the problem of resource gap in Nepal, flows of world resources, changing environment on the supply side of world resources and the time series data form 1986 to 1997. Simple analytical tools like ratio, percentage etc are used in the analysis. He concluded that the resources gap in increasing overtime in Nepal mainly due to traditional nature of tax administration, a centralized system of government, the flow of easy money through various channels, the existence of donor's interest in aid supply, a less generous economy and slow change in the traditional structure. In relation to the increasing inflow of foreign loan Sharma has indicated the fear of debt trap especially when it forces the country to face the abnormal situations such as a especially when it forces the country to face the abnormal situations such as a high proportion of loan (internal and external) is set aside for meeting current expenditure. When a large amount of loan (internal plus external) is allocated for meeting recurrent expenses within the development expenditure, when borrowed money is used for debt servicing, the borrowed amount exceeds its maximum legal limit. He further concluded that, the increasing tendency of borrowing and burden of debt servicing along with the appropriate use of debt resource in view of its low productivity, efficiency and absorption, the possibility of Nepal falling into the debt trap cannot be ruled out.

Similarly, Acharya Keshav P. (1998) has analyzed the public debt situation in Nepal, factor affecting it, burden of debt service and effectiveness of debt in Nepal. By taking the time series date form 1965 to 1997. Simple statistical tools such as ratio, percentage etc are used in the analysis. In analyzing the burden of internal debt the found that about 38% of the internal debt is spent in it owner servicing. Internal debt servicing is consuming 1.6% of GDP and

17% of the regular expenditure. He concluded that the burden of debt would further grow rapidly in future. Regarding the effectiveness of public debt he has viewed that the growth of public debt of GDP in relation to external debt is poorer than the internal debt.

Khatiwada,Yaba Raj (1998) examined the management of public debt issues in nepal focusing on the existing scenario of pubic debt and debt servicing status. The study was conducted by taking the time series data of the period 1981/82 – 1996/97. He has used the analytical tools such as percentage, ratio in this analysis. His study found that public debt has created excess monetary expansion which has indirectly resulted in high rate of inflation and deterioration of current account situation. It has pressured on debt servicing to the government resting in higher budgetary deficit, which further contributes to monetary expansion having subsequent adverse effect in the internal as well as external sector stability. It has also crowed out resources available for private sector investment and it has exerted upward pressure on the market tare of interest.

His study further indicated the more alarming situation of foreign loan of the term nature as it maturing out at faster rate and exchange rate of the Nepalese rupee is depreciating vary fast multiplying the debt obligation as well as the debt servicing requirement. His analysis shows that sources of foreign grants are drying up but there is accumulation of foreign debt with increasing development spending of the government through foreign aid; interest rate on domestic borrowing is very high. Making domestic debt servicing, taxing affair, most of the domestic debt is of short term nature but there is less likelihood of an improved budgetary situation of the government in the near future.

Dhungana Bhishna R. (2000) analyzed on some aspects of the importance of internal debt its management principles and sustainability by taking the time series data form 1981 to 2000. Simple statistical tools such as percentage and ratio have been used in the analysis. To measure the sustainability of debt in Nepal, he been used the analysis. To measure the sustainability of debt in Nepal, he examined the necessary and sufficient conditions through following ratios:

1. Internal debt/Real GDP
2. Internal debt/Nominal GDP
3. External debt/Real GDP
4. External debt/Nominal GDP
5. Total debt/Real GDP
6. Total debt/Nominal GDP

The averages of growth rates between debt and nominal GDP a comparison between the real GDP growths with real interest rates. An analysis to examine whether the primary saving is equal to or greater than interest payments or not. He has analyzed the sustainability of debt through ineasuring two conditions, i.e.: necessary conditions and sufficient conditions. The finding of is analysis as under: the internal debts of GDP ratios were within the sustainable levels but he increasing trend was in the alarming way. The internal debt to GDP was also increasing substantially within his study period. While examining the conditions of sustainability, he found that internal debt to GDP ratio was not exhibiting favorable situation. The growth rate of real GDP was found to be higher than that of real interest in internal debt. Similarly, primary saving was positive through out the study period. Form these indicators he has concluded that the necessary condition for sustainability debt has been fulfilled. However, the sufficient condition showed that the nominal growth rate of debt was higher than that of nominal growth rate in GDP, signifying the internal debt growth to be unsustainable. The total debt to nominal GDP ratio was on an average 65 percent within the last five year of his study period. Therefore, he concluded that the level of overall debt in Nepal was not at the sustainable level in the last five years within his study period.

Thapa,G.B. (2005) analyzed the stock of Nepal's internal and foreign debt, and its servicing capacity talking the time series date of the period 1987/88 to 2002/2003. He has used simple analytical tool like percentage in analysis. He concluded that Nepal's current debt servicing should not be taken as excessive even though it is becoming burdensome. His policy suggestion is that a proper debt management system should instantly be introduced in Nepal.

The reviewed different literature showed contrasting results. Most of the surveyed literatures are deductive in nature. Most of them are analytical and based on the author's observation. The present research is an attempt to reduce the shortcoming of the previous studies. So the result of this research is expected to be little but more reliable than the previous ones.

2.1.4 Review of Master Degree Thesis

- A study done by **Mr. Purshotam Acharya** (2003) entitled *"A Case Study on Public Debt in Nepal "*his study includes different kinds of debts. Feature of different bonds and redemption of bonds, pattern ownership of binds and aims and effects of public debts in the economy. He described that the issue of public debt puts idle money lying with the people put into active use by channeling it into productive purpose for spending up the economic development of the country. He reached on the conclusion that public debt is most popular these days because of the repayment of debt on maturity can be adjusted through the issue of public debt, but the fact is the habit of purchasing bonds issued by the government, should be developed among the people so that no difficulty may be faced in getting the bonds purchased by the public.

- A study done by **Mr. R.M Sivakoti** (2003) *entitled "The Issuances and Payment Process of Public Debt in Nepal"*. Has analyzed government should not borrow the public debt to meet even a minor budgetary insufficiency as far as possible. However the government should raise the debt internally if it is imposed to maintain the capital without levying and charging the additional taxations. He further considers the internally raised debt is preferable instead of external debt for strong and sound economic betterment. He has understanding explained the following.

    - Theoretical aspects and principles of issuance of public debt.

- Action system that has been followed by NRB to collect the debt internally.
- Issuance and payment process of short – term government securities as well as long term securities.

A study done by **Mr Hari Krishna Koirala** (2005) *“Public Debt in Nepal"* analyzed the trend and structure in Nepal. He expressed his view that excursive dependency on foreign loan for development expensiture is persistent because of poor mobilization of internal resources and ever increasing resource gap in the Nepalese economy is not possible to fill up only with domestic resources. These all have reinforced to increase the external borrowing of the government should try for maximum mobilization of internal resources for development purpose and exorbitant upon foreign assistance for development programs should be reduced and it should be contained within the desired extent.

A study done by **Mr. Yaba Raj Khatiwada** (2005) entitled *"Public Debt Management and Macro Economic Stability"* basically dealt with monetary implications public debt. He has found that public debt has:

- Exerted excess monetary expansion, which has indirectly resulted in high rate of inflation and deterioration of current account situation.
- He has pressure on debt servicing to the government resulting in highest budgeting deficit which further contributes to monetary expansion having subsequent repercussion on the internal as well as external sector stability.
- Has crowed out resources available for private sector investment.
- He exerted upward pressure on the market rate of interest. He has further analyzed the situation move alarming as foreign debt of the long term nature is maturating out faster rare and exchange rate of the Nepalses Rupee is depreciation very fast multiplying the debt obligation as well as the debt servicing requirement source of foreign grant is drying up which is property accumulation

of foreign debt with lrge development spending of the government through aid, interest rate on domestic borrowing is very high. Making domestic debt servicing, taxing affair, most of the domestic debt is of short term mature but there is less like hood of an improved budgetary if the government in the future.

A study done by **Mr. Shree Bhadra Khanal** (2006) entitled *" Public Debt in Nepal: A Study of its Structure and Burden "*. He analyzed the trend and structure of public debt in Nepal, the role of public debt in financing development and burden of public debt in Nepal. He described that the external borrowing is increasing more rapidly than internal borrowing in the developing countries, like Nepal. Increasing trend of public borrowing, debt servicing obligation are also increased with the same pace. He again revealed that internal debt has played a significant role in the financial resources. For development expenditure as well as in the growth of money and capital market and it facilities the effective implementation of monetary policy. He reached on the conclusion that the system of public debt is one of the best ways of financing development expenditure of the government, which helps to control inflation and to mobilize the internal financial resources in the productive sector of the country's economy.

CHAPTER III

RESEARCH METHDOLOGY

3.1 Introduction

This chapter describes the methodology employed in this study. Research methodology is a way to systematically solve the research problem. In other words, research methodology describes the methods and process applied in entire aspect of the study. This chapter includes research design, nature of data, data gathering procedure, population and sample, period covered, graph, testing of hypothesis, methods of data analysis.

3.2 Research Design

A research design is the arrangement of conditions for collection and analysis of data that aims to combine relevance to the research purpose with economy in procedure. According to wolf and pant, "Research design is the plan, structure and strategy of investigations conceived so as to obtain answer to research questions and to control variations."

3.3 Nature and Sources of Data

This study is solely based on secondary data. The data are collected from different publication of CBS, NRB, MOF/NG, WB, ADB and other relevant agencies. The study period of this research is 1990/91 to 2007/08. The various issues of economic survey of MOF and quarterly economic bulletin of NRB are the main sources of information.

3.4 Tools and Techniques of Data Processing and Analysis

The data have been analyzed by using various mathematical and statistical tools such as percentage, ratio, average etc. To examine the level of indebtedness and debt sustainability the following technique is applied.

a) To examine the level of indebtedness, the following ratio are calculated and analyzed:

i) Debt outstanding to GDP ratios.

PD/Y : Public debt real GDP ratio.

PD/Y : Public debt to nominal GDP ratio.

ID/Y : Internal debt to real GDP ratio.

ID/Y : Internal debt to nominal GDP ratio

ED/Y : External debt to real GDP ratio.

ED/Y : External debt to nominal GDP ratio.

ii) Per capital debt: total outstanding of debt

iii) Totals debt outstanding/Export ratio

iv) WaDebt service ratio.

- Internal debt service ratio: $\dfrac{\text{Internal debt service}}{\text{Primary surplus}}$

Where, primary surplus = excess amount of revenue receipt over revenue expenditure

- Internal debt service ratio: $\dfrac{\text{Current external debt service payment}}{\text{Exports}}$

b) To analyze the debt sustainability condition some conditions are examined. To identify whether debt is sustainable or not, following two type of conditions are examined.

i) Necessary conditions:

Sustainability of debt	Non sustainability or debt
(i) y*>r*	(i) R*>y*
(ii) D*<DS	(ii) D*>Y*

Where, y*= Real GDP growth r*= Real interest rate

]= D*= Nominal growth of debt y*= Growth of nominal GDP

ii) Sufficient conditions:

Sustainability of debt	Non sustainability or debt
(i) PS>DS	(i) PS>DS

Where,

PS: Primary Surplus

DS: Debt servicing

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

This chapter is organized into three parts. The first part examines the trend and structure of public debt. The second part analyses and indebtedness, debt servicing capacity and debt sustainability in Nepalese Economy. The third part summarizes the major finding of the study.

4.1 Trends and Structure of Public Debt

Nepal has practiced financing budget deficit through public debt with the implementation of planned development. The first five-year plan of Nepal was almost financed through foreign borrowing. But, it was soon realized that the financing of the plan entirely through the external sources was not reasonable for the healthy economic growth of the country. Too much dependence of the nation on the foreign borrowing was taken as against the principle of self reliance. For minimizing the dependence of the nation on foreign borrowing and for meeting the rapidly growth demand for funds in various development projects, Nepalese Government (NG) was almost compelled to seek the possibility of mobilizing resources through the domestic resources. Hence, public debt started to fulfill the resource gap in planned development of Nepal.

4.1.1 Resource Gap in Nepalese Economy

Resource gap is a common phenomenon in Nepalese economy since the beginning of systematic budgetary system. The resource gap is growing every year. This might be due to the annual growth of government expenditure and slow growth of revenue. The extent of the financial resources gap in Nepal for the period covered in the study is shown in the table 4.1.

The data shows that the budget deficit has increased by 9.1% over the study period between 1990/91 and 2007/08. The budget deficit in terms of GDP has showed fluctuating trend. However, it has decreased by 3 percent form 1990/91 to 2007/08. The average annual revenue deficit as part of GDP is 7.8

percent. This indicates the growing trend of revenue collection in the latter years of study period.

The average annual growth of fiscal deficit is 10.7%. The average of fiscals deficit as a share of GDP for the period 1990/91 and 2007/08 is 5.9%. The year-to-year fiscal deficit in terms of GDP shows decreasing tendency form 6.1% in 1989/90 to 3.7% in 2006/07. It might have been due to increasing trend of foreign grants and revenue form the remittances.

The domestic resources gap has been observed increasing annually by 9.1%. But the annual rate of change of domestic resources gap shows very irregular trend. This may be due to the unstable nature of external loans.

4.1.2 Financing Fiscal Deficit

For financing fiscal deficits both internal and external sources of borrowing have been adopted by the government. So public debt has been the main source of financing fiscal deficits in Nepalese economy. The trend of financing fiscal deficit is shown in Table 4.2.

Table 4.1

Resource Gap in Nepalese Economy

(Rs. In Million)

Fiscal Year	Government Revenue	Government Expenditure	Budget Deficit	Foreign Grants	Fiscal Deficit	External Loans	Domestic Resource Gap	Revenue Deficit as % Of GDP	Fiscal Deficit on % of GDP
1990/91	7350.4	14105.0	6754.6	2076.8	4677.8	3815.8	862.0	8.8	6.1
1991/92	7776.9	18005.0	10228.1	1680.6	8547.5	5666.4	2881.1	11.5	9.6
1992/93	9287.5	19669.3	10381.8	1975.4	8406.4	5959.6	2446.8	9.9	8.0
1993/94	10729.9	23459.8	12819.9	2164.8	10655.1	6256.7	4398.4	10.7	8.6
1994/95	13512.7	26418.2	12905.5	1643.8	11261.7	6816.9	4444.8	8.6	7.5
1995/96	15148.8	30897.7	15449.3	3793.3	11956.0	6920.9	5035.1	9.2	7.0
1996/97	19580.8	33597.4	14016.6	2393.6	11623.0	9163.6	2459.4	7.0	5.8
1997/98	24575.2	39060.0	14484.8	3937.1	10547.7	7312.3	3235.4	6.6	4.8
1998/99	27893.1	46542.4	18649.3	4825.1	13824.2	6463.9	4360.3	7.5	5.6
1999/00	30373.5	50723.7	20350.2	5988.3	15361.9	9043.6	5318.3	7.3	5.1
2000/01	32937.9	56118.3	23180.3	5402.6	17777.7	11054.5	6723.3	7.7	5.9
2001/02	37251.0	5957.9	22328.0	4336.6	17991.4	11852.4	6139.0	6.5	5.3
2002/03	42893.8	66272.5	23378.7	5711.7	17667.0	11812.2	5854.8	6.2	4.7
2003/04	48893.6	79835.1	30941.5	6753.5	24188.1	12044.0	12144.1	7.5	5.9
2004/05	50445.6	80072.2	29626.6	6686.1	22940.5	7698.7	12170.3	7.3	5.4
2005/06	56229.8	84006.1	27776.3	11339.1	16437.2	4546.4	11890.8	6.1	3.6
2006/07	62331.0	89442.6	27111.6	11283.4	15828.2	7629.0	15065.3	5.5	3.8
2007/08	70122.8	100937.3	30814.5	11170.0	19644.5	88140	10830.5	5.8	3.7
Average annual Growth Rate					**10.7**		**9.1**	**7.8**	**5.9**

Source: Computed form Annexes I and II

Table 4.2
Fiscal Deficit Financing in Nepal

(Rs. In Million)

Fiscal Year	Fiscal Deficit	Internal Borrowing	External Borrowing	Total Borrowing	(2) as % of (1)	(3) as % of (1)
	1	2	3			
1990/91	4677.8	1130.3	3815.8	4944.8	24.2	81.6
1991/92	8547.5	1330.0	5666.4	6996.4	15.6	66.3
1992/93	8406.4	2150.0	5959.6	8109.6	25.6	70.9
1993/94	10655.1	4552.7	6256.7	10809	42.7	58.7
1994/95	11261.7	2078.8	6816.9	8895.7	18.5	60.5
1995/96	11956.0	1620.0	6920.9	8540.9	13.5	57.9
1996/97	11623.0	1820.0	9163.6	10984	15.7	78.8
1997/98	10547.7	1900.0	7312.3	9212.3	18.1	69.6
1998/99	13824.2	2200.0	6463.9	8663.9	15.9	68.5
1999/00	15361.9	3000.0	9043.6	12044	20.9	63
2000/01	17777.7	3400.0	11054.5	14455	28.4	62.2
2001/02	17991.4	4710.0	11852.4	16562	28.4	11.5
2002/03	17667.0	5500.0	11812.2	17312	31.7	68.2
2003/04	24188.1	7000.0	12044.0	19044	36.7	63.2
2004/05	29626.7	8000.0	7698.7	15699	27	25.9
2005/06	27776.3	8880.0	4546.4	13426	31.9	16.4
2006/07	27111.6	5607.8	7629.0	13237	20.1	28.1
2007/08	29615.1	9060.0	8814.0	17874	30.6	29.8
Average annual Growth Rate					24.3	54.5

Source: Computed form Annex I.

Figure No. 4.1

Fiscal Deficit Financing in Nepal

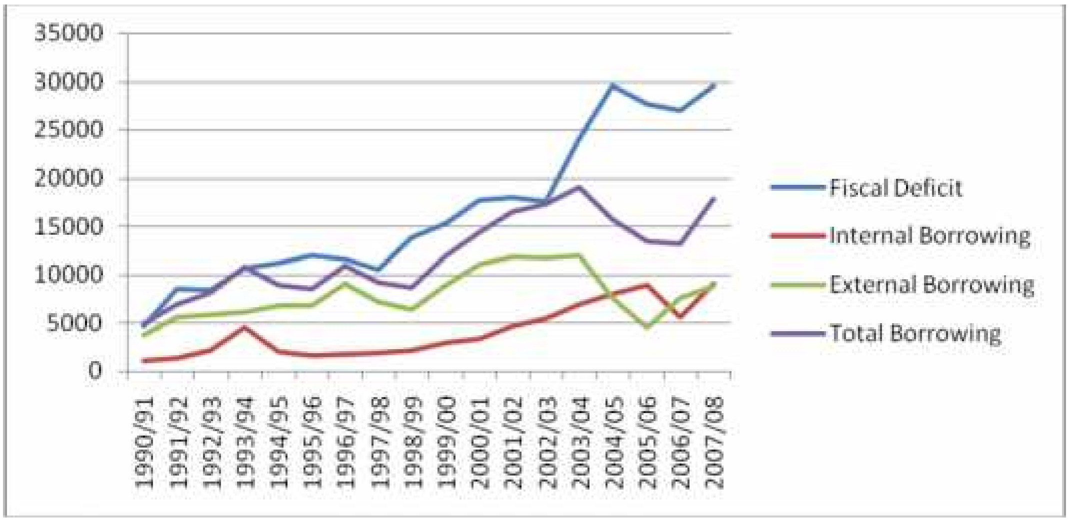


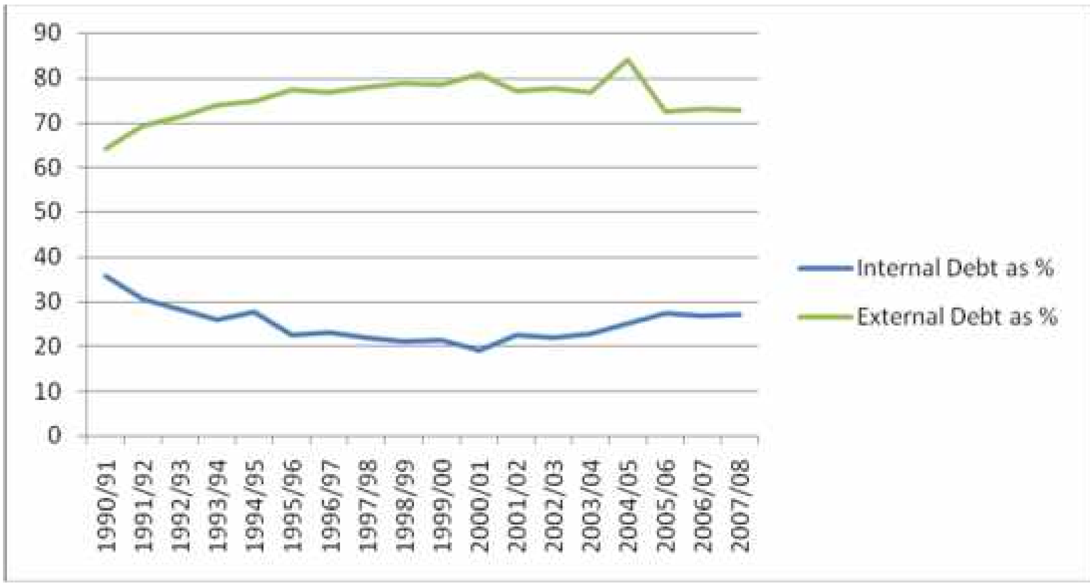
Table 4.3
Share of Internal and External Loans in Total Loans
(Rs. In Million)

Fiscal Year	Total Public Debt	Internal Debt	External Debt	Internal Debt as % of (1)	External Debt as % of (1)
	1	2	3		
1990/91	32462.0	11636.0	20826.0	35.8	64.2
1991/92	42104.8	12887.9	29216.9	30.6	69.4
1992/93	51473.5	14673.1	36800.4	28.5	71.5
1993/94	80361.2	20855.9	59505.3	26.0	74.0
1994/95	110655.7	23234.9	87420.8	27.7	75.0
1995/96	96379.9	25456.0	70923.9	22.6	77.4
1996/97	132598.0	30631.2	101966.8	23.1	76.9
1997/98	145058.8	32057.9	113000.9	22.1	77.9
1998/99	162286.2	34241.8	128044.4	21.1	78.9
1999/00	167977.6	35890.8	132086.8	21.4	78.6
2000/01	199614.7	38406.7	161208.0	19.2	80.8
2001/02	219135.5	49669.6	169465.9	22.7	77.3
2002/03	245048.2	54357.0	190691.2	22.2	77.8
2003/04	261594.3	60043.7	201550.6	23.0	77.0
2004/05	293746.3	73620.7	220125.6	25.1	84.1
2005/06	308078.5	84645.3	223433.2	27.5	72.5
2006/07	318913.0	86133.7	232779.3	27.0	73.0
2007/08	322768.3	87564.3	235204.0	27.1	72.9
Average annual Growth Rate				25.0	75.0

Source: Computed form Annex I.

Figure No. 4.2

Share of Internal and External Loans in Total Loans



The data in Table 4.2 shows that the public debt is increasing form both internal and external sources, which were Rs. 4945.8 million in 1990/91, and it has increased to Rs. 17874.0 million in 2007/08.

The external debt was Rs. 3815.8 million in 1990/91 and it has gone up to Rs. 8814.0 million in 2007/08. Where as the internal debt was Rs. 1130.0 million and increased rapidly in the same period and figured Rs.9060.0 million in 2007/08. The date shows that external debt is increasing in a faster rate that internal debt.

The share of external debt to fiscal deficit was 81.66% in 1990/91 which has gone down to 29.8% in 2007/08. The percentage share of external debt was in the peak in 1990/91 whereas the contribution of internal debt to fiscal deficit was 24.2 percent in 1990/91 and become 30.6% in 2007/08. This shows fluctuating trend in various years. It was in decreasing trend till 2000/01 then started to increase. In a nutshell, it can be said that the reliance on external debt to fiscal deficit is in decreasing trend in a fluctuating manner.

4.1.3 Trend in Government Borrowing

In low per capital income country like Nepal, reliance on taxation is not possible to finance the growth trend of government expenditure. Therefore, there is increasing need for supplementing it by borrowing internally and externally, this is shown in Table 4.3.

The data in Table 4.3 show that the internal debt as percentage of total debt was 35.8 percent in 1989/90, which was in decreasing trend till 2000/01. But after 1999/00 it again started to increase. In 2007/08 it was 27.1 percent, which was less by 7.7 percent form 1990/91. Similarly, the external debt shows increasing trend of share in total public debt. In 1990/91, it was 64.2% of total government debt and in 2007/08 it stood at 75.0% of the total debt. It was maximum (84.1) in 2004/05. The average annual percentage share of internal and external debt in the total debt was 25% and 75% in the study period. The data also show the trend that the government borrowing is increasing in both absolute and relative terms. The data reflect that the tendency on the reliance of external debt has increased in the study period.

4.2 Structure of Internal Borrowings

In Nepal on of the major sources of financing government deficit is form internal sources.

4.2.1 Sources on Internal Borrowings

The major sources of internal borrowing are borrowing form backing and non-backing sector. Borrowing form banking system is inflationary and borrowing form non-banking system is non-inflationary. Borrowing form banking is like an injection of money in the economy where as borrowing form non-banking is just like and mobilization of resources.

The table 4.4 reflects the contribution of internal burrowing in financial government budget deficit.

Table 4.4

Sources of Internal Borrowing of the Government

(Rs. In Million)

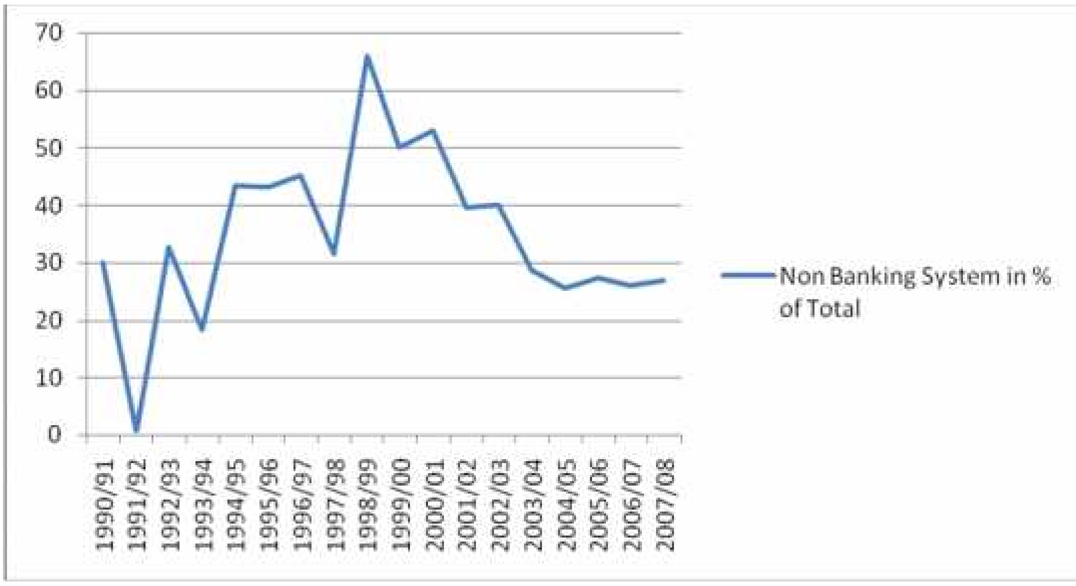
Fiscal Year	Banking System	Non-Banking System	Total Borrowing	Banking System in % of Total	Non Banking System in % of Total
1990/91	979.7	339.4	1130.0	86.7	30.0
1991/92	1320.0	10.0	1330.0	99.2	0.8
1992/93	1450.0	700.0	2150.0	67.4	32.6
1993/94	3713.2	839.5	4552.7	81.6	18.4
1994/95	1178.8	900.0	2078.8	56.7	43.3
1995/96	920.0	700.0	1620.0	56.8	43.2
1996/97	1000.0	820.0	1820.0	54.9	45.1
1997/98	1300.0	600.0	1900.0	68.4	31.6
1998/99	750.0	1450.0	2200.0	34.1	65.9
1999/00	1500.0	1500.0	3000.0	50.0	50.0
2000/01	1600.0	1800.0	3400.0	47.1	52.9
2001/02	2850.0	1860.0	4710.0	60.5	39.5
2002/03	3300.0	2200.0	5500.0	60.0	40.0
2003/04	4988.9	2011.1	7000.0	71.3	28.6
2004/05	54865.5	18755.6	73621.1	74.0	25.5
2005/06	63155.0	21553.5	84708.5	72.6	27.4
2006/07	62935.1	23261.7	86196.8	73.0	26.0
2007/08	63507.6	23261.7	86769.3	73.2	26.8

Source: Computed form Annex V.

As shown in the Table 4.4, the borrowing form banking system has dominated the structure of total internal borrowing. In FY 1990/91, the total internal borrowing was Rs. 1130.0 million in which banking system contributed Rs. 979.7 million (86.7%) and non-banking system contributed Rs. 339.4 million (13.3%). By the end of FY 2007/08, the total internal borrowing was Rs. 86769.3 million in which banking system contributed 73.2% and non-banking system contributed 26.8%. The data in the table shows that there is large fluctuation in borrowing form non-banking system. There is domination of banking system in the contribution of internal borrowing which is inflationary in nature.

Figure No. 4.3

Sources of Internal Borrowing of the Government



4.2.2 Pattern of Internal Net Outstanding of Debt

Firstly, internal borrowing program was carried out by the government in 1961. Since then government of Nepal has been borrowing internally under different plans to bridge the resource gap on the budgetary position and for mobilization of financial resources for development. The government mobilizes the internal borrowing by issuing treasury bills, development bonds, national saving bonds, citizen saving bonds and special bonds. The instruments of internal borrowing are given in Table 4.5.

Table 4.5

Ownership Pattern of Internal Net Outstanding Debt

(Rs. In Million)

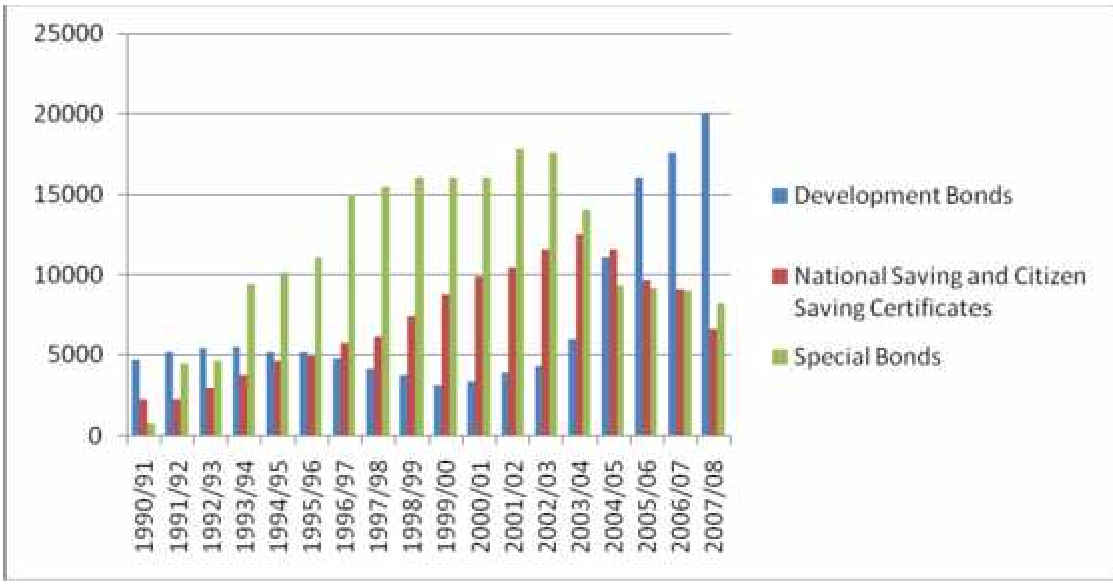
Fiscal Year	Treasury Bills	Development Bonds	National Saving and Citizen Saving Certificates	Special Bonds	Total
1990/91	4090.0	4651.7	2196.5	697.8	11636.0
1991/92	1171.0	5088.6	2196.5	4431.8	12887.9
1992/93	1821.0	5388.6	2896.5	4567.0	14673.1
1993/94	2351.0	5482.3	3646.5	9376.1	20855.9
1994/95	3483.2	5132.2	4546.5	10073.2	23234.9
1995/96	4403.2	5152.2	4901.5	11019.2	25476.1
1996/97	5216.3	4732.2	5691.5	14991.2	30631.2
1997/98	6392.5	4122.2	6076.4	15466.7	32057.8
1998/99	7142.5	3672.3	7376.5	16050.7	34241.9
1999/00	8092.5	3042.2	8736.5	16019.7	35890.9
2000/01	9182.5	3302.2	9886.4	16035.6	38406.7
2001/02	17586.9	3872.2	10426.4	17784.1	49669.6
2002/03	21026.9	4262.2	11526.4	17541.4	54356.9
2003/04	27610.8	5962.2	12476.4	13994.3	60043.7
2004/05	41106.6	11090.7	11536.3	9259.4	72993.0
2005/06	48860.7	16059.2	9629.8	9164.5	84645.3
2006/07	49429.6	17540.2	9029.8	8946.2	84956.6
2007/08	51383.0	19999.2	6576.8	8176.3	86135.3

Source: Computed form Annex III.

The data in Table 4.5 shows that the total net outstanding internal debt was Rs. 11636.0 million in 1990/91 and it increased to Rs. 86135.3 million in 2006/07. In the internal debt of 1990/91, the share of treasury bills was 35% and development bond was 40%. Similarly, national saving and citizen saving bonds contributed 19% and remaining 6% was financed by special bonds but in 2007/08, the share of treasury bills, development bonds, national saving bonds, citizen saving bonds and special bonds are found to be 59.66%, 23.2%, 7.6% and 10.6% respectively. Thus, the role of domestic borrowing for resource mobilization is increasing. There is domination of treasury bills in internal borrowing (59.6%) in 2007/08.

Figure No. 4.4

Ownership Pattern of Internal Net Outstanding Debt



4.3 External Borrowings

Government of Nepal also borrows form external sources to finance its deficit spending. The government receives loan form bilateral and multilateral sources.

The contribution of bilateral and multilateral loans in financing government deficit is shown in Table 4.6.

Table 4.6

Amount and Share of Bilateral and Multilateral Loans in External Loans

(Rs. In Million)

Fiscal Year	Total External Loans (1)	Bilateral Loans (2)	Multilateral Loans (3)	2 as % of 1	3 as % of 1
1990/91	3094.3	462.5	2631.8	14.9	85.1
1991/92	4194.7	507.8	3686.9	12.1	87.9
1992/93	4628.3	1006.0	3627.7	21.6	78.4
1993/94	4360.0	1602.8	2757.2	36.8	63.2
1994/95	6269.4	2389.8	3879.6	38.1	61.9
1995/96	5961.7	1307.6	4654.1	21.9	78.1
1996/97	9163.6	582.9	8580.7	6.4	93.6
1997/98	7314.2	717.3	6596.9	9.8	90.2
1998/99	9463.9	460.0	9003.9	4.9	95.1
1999/00	9043.6	850.7	8192.9	9.4	90.6
2000/01	11054.5	1314.5	9740.0	11.9	88.1
2001/02	11852.4	584.0	11268.4	4.9	95.1
2002/03	11812.2	757.9	11054.3	6.4	93.6
2003/04	12044.0	586.7	11457.3	4.9	95.1
2004/05	8481.6	873.6	7608.9	10.3	89.7
2005/06	7698.7	87.0	7611.7	1.1	98.9
2006/07	4546.4	657.2	3889.2	14.5	85.5
2007/08	11111.0	453.5	10657.5	4.1	95.9
Average in between 1991-2008				13%	87%

Source: Computed form Annex IV.

The above in Table 4.6 discloses that the bilateral loan has a decreasing trend and multilateral loans have an increasing trend over the study period.

The share of bilateral loan in total external loan was 14.9% in 1990/91, whereas it was only 4.1% in 2007/08. On the other hand, the share of multilateral loan is increasing in total loan. In 1990/91 it was 85.1% which was increased to 95.9% in 2007/08. The average percentage share of bilateral loan and multilateral loan in total in 13% and 87% respectively. The domination of multilateral loan and reduction of bilateral loan started mainly after 1994/95.

Figure No.4.5

Share in Bilateral Lone and Multilateral Loans in External Lone

4.4 Indebtedness, Debt Servicing Capacity &Debt Sustainability

4.4.1 Analysis of Level of Indebtedness

The level of indebtedness shows the extent of debt burden of the economy. In this connection there are many indicators available to analyze the indebtedness of country. The external and internal debt burdens in relation to the GDP, per capital debt burden, internal debt to GDP ratio, internal debt to revenuer receipt, external debt to GDP ratio, external debt to export, debt servicing to export ratio and net transfer to important ratios are the major indicators which are analyzed here.

4.4.2 The Trend of Internal and External Indebtedness

Nepal remained almost debt free country till 1961/62. The outstanding of debt begin since 1963. But the size of debt was small in the beginning so there was no debt-servicing obligation till the end of 1970s. The continuation in borrowing and increase in debt payment obligation caused the rise in the amount of outstanding foreign debt. The level of outstanding debt of Nepal increased and after 1975 it is presented in Table 4.7.

Table 4.7

Indebtedness of Nepal

(Rs. In Million)

S.No.	Indicator	1987	1992	1997	2002	2007
1	Internal Debt Outstanding	8031.6	14873.1	32057.8	54357.0	90323.1
2	External Debt Outstanding	9203.3	36800.9	113000.9	190691.2	352806.0
3	Internal Debt (ID) Service	488.7	1155.9	3098.6	47111.4	76017.7
4	External Debt (ED) Service	189.5	1123.6	2984.7	5221.4	8083.7
5	ID as % of GDP	12.9	14.0	14.1	14.0	16.6
6	ED as % of GDP	19.8	37.0	54.0	52.0	44.5

Source: Annex VII.

4.4.3 The Trend of Indebtedness

The data in Table 4.7 discloses that internal debt of Nepal grew form Rs. 8031.6 million in 1986/87 to Rs. 9032.1 millions in 2006/07. The service of internal debt as also increased form Rs. 488.7 million in 1988/89 to Rs. 76017.7 million in 2006/07. The amount of internal debt as percentage of GDP is increasing trend, which was 12.9 percent in 1986/87 and 16.6 percent in 2006/07. The internal debt as percentage of GDP remained stagnant in around 14 percent in 1990s. But it was increased by 16.6 percent in 2006/07.

Outstanding external debt also has gone up with the pass of time. The outstanding debt amount in 1987 was Rs. 9203.3 million, which increased to Rs. 352806.0 million in 2006. The external debt service has also increased form Rs. 189.5 million in 1997 to Rs. 8083.7 million in 2007. The shares of total debt (TD), internal debt (ID) and external debt (ED) in the GDP of Nepal for the period 1990/91 – 2007/08 is given in Table 4.8.

Table 4.8

Total Debt, Internal Debt and External Debt to GDP Ratio

Fiscal Year	ID/Y	ID/y	ED/Y	ED/y	TD/Y	TD/y
1990/91	0.07	0.15	0.14	0.28	0.21	0.44
1991/92	0.08	0.14	0.19	0.34	0.27	0.48
1992/93	0.08	0.14	0.22	0.37	0.31	0.51
1993/94	0.11	0.17	0.34	0.51	0.46	0.69
1994/95	0.12	0.15	0.39	0.49	0.51	0.67
1995/96	0.12	0.14	0.46	0.53	0.59	0.64
1996/97	0.14	0.15	0.50	0.53	0.64	0.68
1997/98	0.14	0.14	0.54	0.54	0.68	0.68
1998/99	0.14	0.13	0.58	0.53	0.72	0.67
1999/00	0.14	0.12	0.57	0.49	0.71	0.61
2000/01	0.15	0.12	0.67	0.46	0.82	0.68
2001/02	0.18	0.14	0.67	0.51	0.86	0.65
2002/03	0.19	0.14	0.71	0.52	0.90	0.66
2003/04	0.20	0.14	0.72	0.51	0.92	0.65
2004/05	0.25	0.17	0.79	0.54	1.04	0.72
2005/06	0.28	0.19	0.78	0.52	1.06	0.71
2006/07	0.28	0.18	0.74	0.49	1.02	0.67
2007/08	0.27	0.17	0.74	0.47	0.99	0.63

Source: Computed form Annex VII.

4.4.4 The Trend of External Indebtedness

The external debt outstanding is dominant from the initial period covered in this study. In 1986/87 it was Rs. 9203.3 million, which increased to Rs.352806.0 million in 2006/07. With the increase in outstanding of external debt, the external indebtedness has also increased. In terms of GDP, external debt was higher than 37 percent in 1990s. in 2006/07, it decreased to 44.5% for 52% of the fiscal year 2001/02.

4.4.5 Debt to GDP Ratio

Total debt to GDP Ratio: the total debt of GDP ratios are increasing in both nominal and real terms. In nominal term, the total debt to GDP ratio, TD/Y was 44 percent in 1990/91 which increased to 63% in 2007/08 (Table 4.8). The rising trend of the ratio of total debt to GDP suggests that the burden of external debt is being heavy day by day.

Internal Debt to GDP Ratio: The internal debt to GDP ratio shows an increasing trend throughout the study period of 18 years. The ratio of internal debt to nominal GDP (ID/Y) and internal debt to real GDP (ID/y) in 1990/91 was 7% and 15 % respectively which has increased to 27% and 17% in 2007/08. This indicates that the internal debt to GDP ratio nearly doubled in the study period. This implies that the burden of internal debt is also increasing in real terms.

External Debt to GDP Ratio: The ratios of external debt to nominal GDP (ED/Y) and real GDP (ED/y) were 44% and 21% in 1990/91, which has increased to 68% and 82% in 1991/92. In 2007/08, it increased to 63% and 99%. In the same period, the ratio of external debt to nominal and real terms of GDP is higher than internal debt. This suggests that external debt is increasing rapidly which may create external debt crisis in future, if external debt is not managed and used in productive sector.

4.4.6 Per Capital Debt

The per capital debt shows an increasing trend over the study period Table 4.9 shows the per capital external and internal debt of the period 1990/91 - 2007/08.

Table 4.9
Per Capita Debt of Nepal

(Rs. In Million)

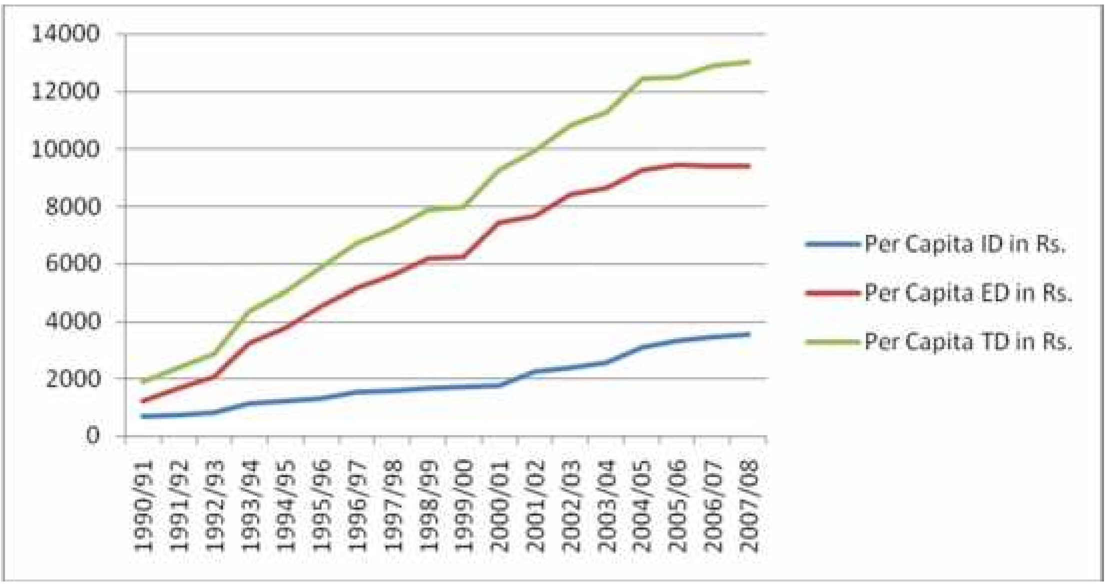
Fiscal Year	Population (in '000)	Per Capita ID in Rs.	Per Capita ED in Rs.	Per Capita TD in Rs.
1990/91	17354	670.5	1200.1	1870.6
1991/92	17716	727.5	1649.2	2376.7
1992/93	18085	811.3	2034.9	2846.2
1993/94	18462	1129.7	3223.1	4352.8
1994/95	18884	1230.4	3755.8	4986.2
1995/96	19316	1317.9	4525.8	5843.7
1996/97	19759	1550.2	5160.5	6710.8
1997/98	20211	1586.2	5591.1	7177.2
1998/99	20674	1656.3	6193.5	7849.8
1999/00	21147	1697.2	6246.1	7943.3
2000/01	21631	1775.5	7452.6	9228.2
2001/02	22126	2244.9	7659.1	9904.0
2002/03	22632	2401.8	8425.7	10827.5
2003/04	23151	2593.6	8656.4	11250.0
2004/05	23680	3109.0	9295.5	12404.8
2005/06	24222	3322.3	9464.9	12487.2
2006/07	24755	3479.5	9403.3	12892.8
2007/08	25299	3566.7	9440.7	13007.4

Source: Computed form Annex VIII.

At the end of FY 1990/91, the total debt per capital of Nepal was Rs. 1870.6, in which Rs. 670.5 was internal and Rs. 1200.1 was external. After five years (1994) the per capital Id doubled to reach Rs. 1230.4 and per capital external debt tripled to reach Rs. 3755.8. Accordingly, the per capital total debt increased by 2.6 times and stood at Rs. 4986.2 in FY 1994/95. The per capital debt has grown moderately during the period of 1996-2000. In 2007/08 the per capital internal and external debt reached to Rs. 3566.7 and Rs. 9440.7 respectively, which suggests increasing debt burden to Nepalese people.

Figure No.4.6

Per Capita Debt of Nepal



4.4.7 The Ratio of External Debt Outstanding to Export

The ratio of outstanding foreign debt to export of the country shows an irregular pattern of rise and fall. In some years it is above 5% and in some year it is around 3%. In the year 1993/94 it was about 8% on the average and in the year 2003/04 it was about 3%. The high value of debt outstanding to export for different years implies that the earnings the foreign currencies form the export is not enough to cope up with the increasing borrowing of capital form abroad. Total 4.10 shows the ratio of total foreign debt to export

Table 4.10
Ratio of External Debt Outstanding to Export

(Rs. In Million**)**

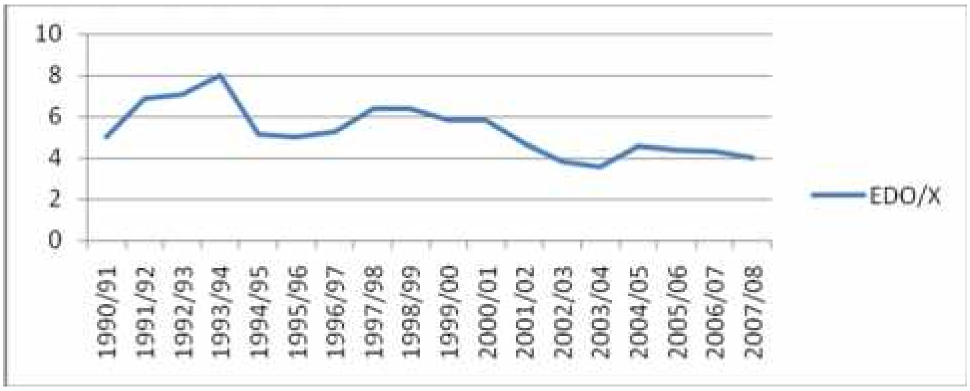
Fiscal Year	External Debt Outstanding (EDO)	Export (X)	EDO/X
1990/91	20826.0	4210.7	5.05
1991/92	29216.9	4211.1	6.94
1992/93	36800.9	5169.9	7.12
1993/94	59505.3	7403.3	8.04
1994/95	70923.9	13725.6	5.17
1995/96	87420.8	17286.4	5.06
1996/97	101966.8	19316.0	5.28
1997/98	113000.9	17680.3	6.39
1998/99	128044.4	19912.7	6.43
1999/00	132086.8	22663.1	5.83
2000/01	161208.0	27540.2	5.85
2001/02	1698465.9	35692.7	4.75
2002/03	190691.2	49844.7	3.83
2003/04	200404.4	55676.5	3.60
2004/05	220125.6	47559.8	4.63
2005/06	223433.2	49930.6	4.43
2006/07	232779.3	53910.7	4.32
2007/08	235204.0	58236.2	4.04

Source: Computed form Annex VII.

Though there is increasing trend of external debt outstanding and export earnings, the ratio have been fluctuating form years to years. In 1990/91 it was 5.05 percent, which has increased to 8.40 percent in 1991/91. After 1993/94, it again fluctuated. In 2007/08 it decreased to 4.04 percent, which suggests the increasing capacity of export earning to pay foreign debt in Nepalese economy.

Figure No.4.7

Ratio of External Debt Outstanding to Export



4.5 Debt Service Ratio

4.5.1 The Internal Debt Service Ratio

Table 4.11
Internal Debt Service Ratio

(Rs. In Million)

Fiscal Year	Debt Servicing on I.D (IDS)	Revenue Receipt	Revenue Expenditure	Primary Surplus	IDSR=IDS/PS
1990/91	850.6	7350.4	4677.0	2673.4	0.32
1991/92	1019.4	7776.9	5676.2	2100.7	0.49
1992/93	1155.6	9287.5	6671.8	2615.7	0.44
1993/94	1320.9	10729.9	7570.3	3159.6	0.42
1994/95	2132.2	13512.7	9905.4	3607.3	0.59
1995/96	2428.6	15148.4	11484.1	3664.3	0.66
1996/97	2366.4	19580.8	12409.2	7171.6	0.33
1997/98	3098.6	24575.2	19265.1	5310.1	0.58
1998/99	3411.1	27893.1	21561.9	6331.2	0.54
1999/00	4177.8	30373.5	24181.1	6192.4	0.67
2000/01	3481.6	32937.9	24174.4	5763.5	0.60
2001/02	3977.5	37251.0	31047.7	6203.3	0.64
2002/03	4711.4	42893.8	34523.3	8370.5	0.56
2003/04	4187.0	48893.6	42769.2	6124.4	0.68
2004/05	5637.7	50445.5	48590.1	1855.4	3.04
2005/06	8661.7	55250.0	52556.4	2693.6	3.21
2006/07	6115.0	60480.0	55552.1	4927.9	1.24

2007/08	7601.8	701340.7	63177.3	7016.7	1.08

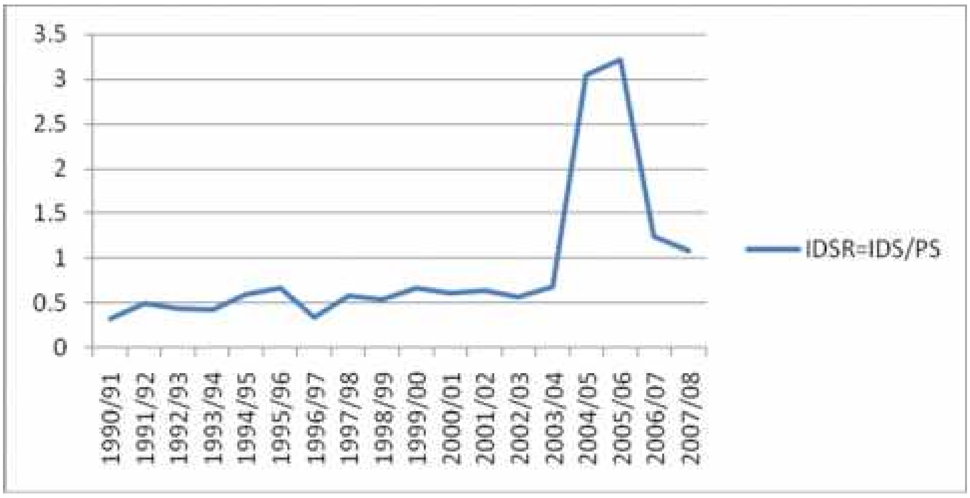
Source: Computed form Annex IV.

The internal debt service ratio measures the capacity of government to serve the internal debt form the revenue without cutting the development expenditure. Lower level of the ratio especially below one is desirable to be maintained in the economy. The increasing trend of internal debt service ratio is shown in the Table 4.11.

The date given in Table 4.11 show that the internal debt service ratio was below 1% till FY 2003/04. But after 2004, it increased rapidly. In 2004/05 it was 3.04% on the average. In 2007/08 it was 1.08, which reflects that the government has serious challenges to serve debt form internal resource mobilization. This situation compelled government of Nepal to serve debt either by cutting down the development expenditure or raising additional debt to serve the debt, which is considered as the symptom of debt trap.

Figure No.4.8

Internal Debt Service Ratio



4.5.2 The External Debt Service Ratio

External debt service ratio is considered as an indicator to measure the borrowers' debt service obligations in relation to export earnings. This also explains the extent of debt service in terms of current export earnings. The external debt service to export ratio has been fluctuating over the study period. The nature of external debt service is revealed through Table 4.12.

Table 4.12
External Debt Service Ratio of Nepal

(Rs. In Million)

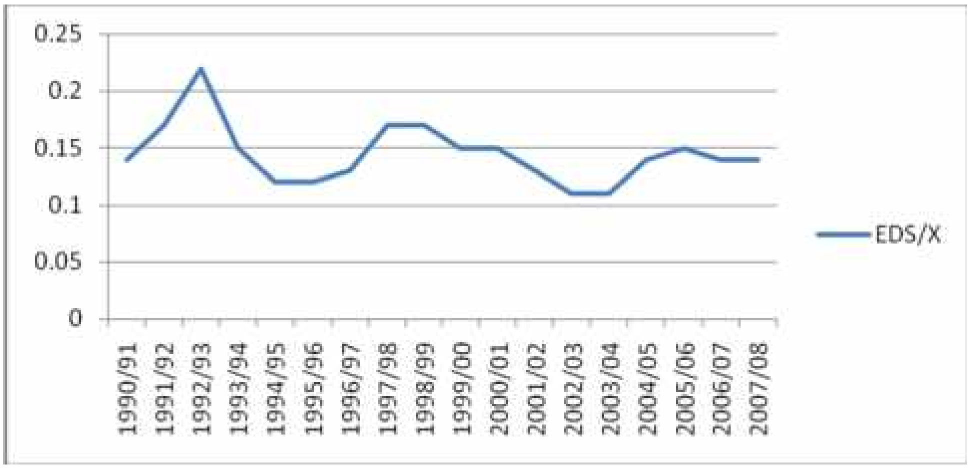
Fiscal Year	Payments of Principal on ED	Payment of Interest on ED	Total External Debt Servicing on ED	Export	EDS/X
1990/91	297.5	293.5	591.0	4127.3	0.14
1991/92	288.6	312.7	701.3	4211.1	0.17
1992/93	701.8	412.8	1123.6	5169.9	0.22
1993/94	589.0	497.5	1086.5	7403.3	0.15
1994/95	942.2	722.7	1664.9	13725.6	0.12
1995/96	1252.9	879.0	2131.9	17286.4	0.12
1996/97	1468.2	1020.5	2488.7	19316.0	0.13
1997/98	1828.2	1156.5	2984.7	17680.3	0.17
1998/99	1987.7	1316.6	3304.3	19912.7	0.17
1999/00	2102.4	1247.0	3349.4	22663.1	0.15
2000/01	2780.2	1421.0	4201.2	27540.3	0.15
2001/02	3196.5	1549.0	4745.5	35692.7	0.13
2002/03	3681.1	1640.3	5321.4	49844.7	0.11
2003/04	4500.6	1700.8	6201.4	55676.5	0.11
2004/05	4751.4	1816.1	6567.5	47559.8	0.14
2005/06	5496.2	2021.7	7517.9	50076.3	0.15
2006/07	5765.8	2141.7	7907.5	53910.7	0.14
2007/08	5952.2	2146.7	8098.9	58705.7	0.14

Source: Computed form Annex VII.

The data in Table 4.12 indicate that the ratio of EDS to export (x) was 14% in FY 1990/91, which has increased up to 17% in FY 1996/97 and 1997/98. This suggests that 17% of export earning in spent on external debt servicing. In 2007/08, it was 14%. The government is unable to reduce this ratio significantly due to the low export capacity and increasing debt service obligations

Figure No.4.9

The External Debt Service Ratio



4.5.3 Net Transfer

The net transfer is the balance of external debt related flows during a period, which measures additional claim on real external resources by debtor country. Table 4.13 shows the net transfer and ratio of net transfer over import in the study period.

Table 4.13
Ratio of Net Transfer to Import

(Rs. In Million)

Fiscal Year	Direct Loan Disbursement	External Debt Service	Net Transfer [NT]	Import [M]	Ratio of NT/M
1990/91	3156.6	596.5	25601.0	13892.8	0.18
1991/92	4633.8	693.0	3940.8	16296.8	0.24
1992/93	6479.8	907.8	5572.0	18365.5	0.30
1993/94	4709.2	1047.2	3662.0	23255.7	0.16
1994/95	8152.5	1688.7	6463.8	31987.0	0.20
1995/96	6478.8	2129.8	4349.0	39259.9	0.11
1996/97	9527.5	2457.0	7070.5	59628.7	0.14
1997/98	11611.8	3275.2	8336.6	63740.4	0.13
1998/99	9446.8	3300.1	6146.7	74570.8	0.08
1999/00	10117.0	3354.2	6762.8	93661.9	0.07
2000/01	12091.2	1052.2	8039.0	89153.8	0.09
2001/02	10726.8	4173.6	6553.2	87695.0	0.07
2002/03	12540.4	5265.2	7275.2	108624.4	0.07
2003/04	11982.2	6206.7	5772.7	115797.0	0.05
2004/05	8040.3	8642.6	-6023.0	106873.4	-0.06
2005/06	5184.1	7690.3	-2506.2	122203.2	-0.03

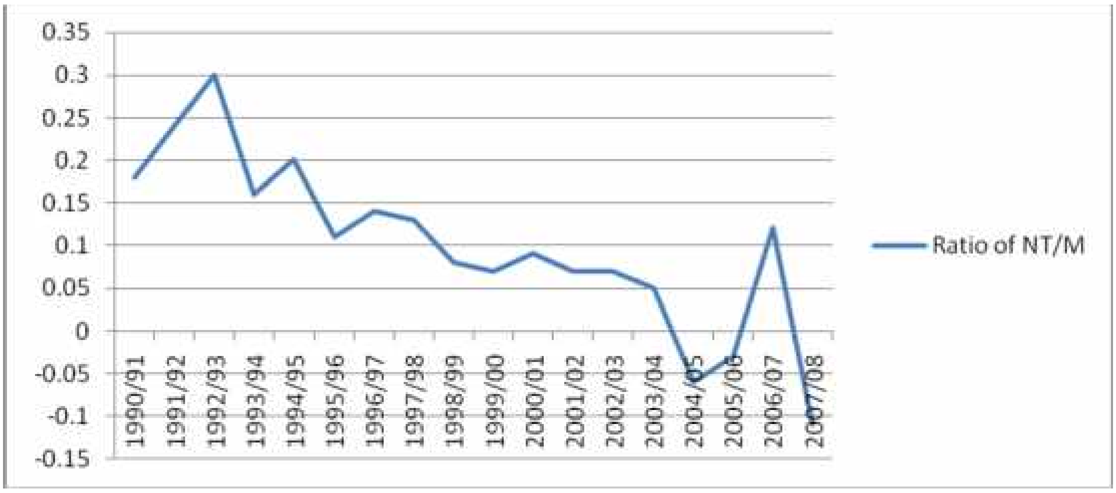
2006/07	9605.4	7907.9	1697.5	136277.1	0.12
2007/08	6703.7	8099.9	1396.2	132186.8	-0.11

Source: Computed form Annex IV.

The data in Table 4.13 show that the disbursement of loan increased continuously each year till 2004/05. At the same time period the external debt service amount also increased. The net transfer increased till 2002/03. The continuous increment in the net transfer reveals the increasing dependence on the external borrowing for import. But after 2003, the volume of net transfer started to fall. In 2003, it turned out to be negative. This situation is considered more critical because the imports and debt servicing both are increasing both are increased more critical because the imports and debt servicing both are increasing. The dependence on the external resource transfer in Nepal has decreased but the increased foreign debt service has to be served form other export earnings. A large part of the exports earnings are absorbed to serve the external debt. This situation points out that there is a chance of borrowing for debt service purpose if the exports trade the deteriorated in the future.

Figure No.4.9

Ratio of Net Transfer to Import



4.6 Analysis of Debt Sustainability

The indicator of debt sustainability is an important component in debt management because it gives a correct picture of whether government is in the comfortable position to continue fiscal deficit or not in future. If it is not in the comfortable position, government has to reorient its policies. There are various approaches to measure the sustainability of debt. The basic question is what type of sustainability is wanted to be observed; some observe forward-looking sustainability that is based on ex-ante analysis whereas other observes backward looking sustainability that is based on ex-post analysis. Whatever the method of analysis is followed, the methodologies are based on the examination of two conditions:

- Necessary condition, and
- Sufficient condition

4.6.1 Necessary Condition

Under the necessary condition, the real GDP Growth (y^*) should exceed the real interest rate (r^*), that is, $y^*>r^*$. This assures the financial stability for the government even if there is persistent rise in the ratio of debt to for the government even if there is persistent rise in the ratio of debt to GDP. If $r^*>y^*$, there may have adverse implications of the debt through interest, cost is translated into growth through the ratio of debt to GDP. The growth of nominal debt (D^*) should be equal to or less than the growth rate of nominal GDP (Y^*), that is, $D^*<Y^*$. This suggests that the level of debt is consistent with economic growth in nominal term and debt burden can be served without a pressure of creating additional debt. The scenario of the necessary condition of debt sustainability of Nepal for the period 1991/92 – 2007/08 is given in Table 4.14.

Table 4.14
The Ratios for Necessary Condition of Debt Sustainability

(Rs. In Million)

Fiscal Year	Real GDP Growth y*	Real Interest Rate r*	Nominal GDP Growth Y^*	Growth of Debt D^*	Comparison
1991/92	5.44	-0.39	17.3	10.72	
1992/93	4.74	-1.05	16.16	13.46	
1993/94	6.72	-1.31	16.47	44.44	
1994/95	4.84	-11.78	24.81	8.06	
1995/96	2.95	0.71	14.09	8.66	
Average of Five years	4.938	-2.764	17.76	16.78	$y^*>r^*$, $r^*>D^*$
1996/97	8.27	-0.69	15.87	22.23	
1997/98	2.73	0.31	9.59	3.58	
1998/99	5.69	0.55	14.01	7.21	
1999/00	5.01	0.85	12.61	5.22	
2000/01	3.34	-1.32	7.5	6.52	
Average of Five years	5.0	-0.06	11.9	8.9	$y^*>r^*$, $r^*>d^*$
2001/02	4.54	-4.21	13.88	29.35	
2002/03	6.09	3.57	10.98	10.69	
2003/04	4.74	3.46	7.46	10.75	
2004/05	-0.60	2.41	2.77	23.67	
2005/06	3.42	1.73	5.93	15.87	
2006/07	3.4	1.7	8.5	10.83	
2007/08	2.5	1.0	6.7	1.21	
Average of Seven years	3.44	1.35	8.03	13.34	$y^*>r^*$, $y^*>D^*$
Average of 18 years	4.34	-0.274	12.03	13.04	$y^*>r^*$, $r^*>D^*$

Source: Computed form Annex VII.

The data given in Table 4.14 show that the real growth rates of real GDP has been higher than the growth rate of real interest rates, that is, $y^*>r^*$ in the whole study period. This reflects that in spit of the persistent raise in debt to GDP ratio the debt sustainability is assured by the government. Similarly, the second indicator shows that growth rate of real GDP (Y^*) is greater than growth rate of nominal debt till 1999/00. After 2001/02, Y^* is smaller than D^* which indicates that debt is not sustainable for financial stability. This also warns the government to change debt policies for its sustainability in future.

4.6.2 Sufficient Condition

Under the sufficient condition, government should generate adequate primary surplus (PS) to refinance additional debt servicing burden. The primary surplus refers to revenue surplus and debt service includes principle and interest payments on internal debt. The data given in Table 4.15 reveals that one of the indicators is not favorable. If the necessary condition is not favorable, adequate primary surplus is required so as to offset the additional cost of interest in order to stabilize debt to GDP ratio. The scenario of the sufficient condition of debt sustainability is given in Table 4.15.

Table 4.15
The Analysis of Sufficient Condition

(Rs. In Million)

Fiscal Year	Primary Surplus	Debt Servicing on ID	Results
1991/92	2100.7	1019.4	PS > DS
1992/93	2615.7	1155.6	PS > DS
1993/94	3159.6	1320.9	PS > DS
1994/95	3607.3	2132.2	PS > DS
1995/96	3664.3	2428.6	PS > DS
Average of Five years	3029.5	1611.3	PS > DS
1996/97	7171.6	2366.4	PS > DS
1997/98	5310.1	3098.6	PS > DS
1998/99	6331.2	3411.1	PS > DS
1999/00	6192.4	4177.8	PS > DS
2000/01	5763.5	3481.6	PS > DS
Average of Five years	6153.8	3307.1	PS > DS
2001/02	6203.3	3977.5	PS > DS
2002/03	8370.5	4711.4	PS > DS
2003/04	6124.4	4187.0	PS > DS
2004/05	1855.4	5637.7	PS > DS
2005/06	2693.6	8661.7	PS > DS
2006/07	4927.9	6115.0	PS > DS
2007/08	7016.7	7601.8	PS > DS
Average of Seven years	5313.1	5841.7	PS > DS
Average of 18 years	4888.7	3852.0	PS > DS

Source: Computed form Annex VII.

The data given in Table 4.15 show that on the average primary surplus is greater than debt servicing on internal debt for the period 1992/93-2003/04. But unfortunately, after 2004/05, primary surplus has been less than debt servicing. It is due to the drastic decrease in primary surplus after 2004/05. This indicates incapability of government to finance additional debt burden in the recent years. Thus, the government has to review its borrowing policies for prudential debt management.

4.7 Major Findings of the Study

The major findings of the study are summarized as:

- Resource gap is a common phenomenon in Nepalese economy since the beginning of systematic budgetary system. The average annual growth rate of budged deficit is 9.5 percent in the study period. But the fiscal deficit in terms of GDP shows decreasing tendency form 6.1% in 1990/91 to 3.7% in 2007/08. It might have been due to the increasing trend of foreign grants and revenue form remittances.

- The domestic resource gap is increasing annually by 9.1% but the rate of change is negative in the recent years. It might have been due to the increasing trend of external loans. The increasing trend of external loan is greater than the internal loan. It might be due to excess of external loan for financing fiscal deficit.

- The average annual percentage share of internal and external loan in the total debt is 25% and 75% for the period 1990/91 -2007/08, which shows the heavy reliance on external debt.

- The sources of internal debt are classified into banking and non-banking in which, banking sources contributes 73.2% and 26.8% is contributed by non-banking sources. In banking sources there is domination of treasury bills (59.6%) which is supposed to cause inflation in the economy.

- External loans consist of bilateral and multilateral loans in which the amount of multilateral loans has been increasing day by day. The average annual share of multilateral loans in total loan is 87% and the remaining 13% is the share of bilateral loans.

- Nepal is facing the problem of debt servicing. The internal as well as external indebtedness of country is increasing every year. In terms of the percentage of GDP also internal and external indebtedness are increasing.

- The per capital debt is increasing every year. At the end of the fiscal year 1989/90 it was Rs. 1870.6 in which Rs. 670.5 was internal and Rs. 1200.0 was external; but in 2007/08, it reached to Rs. 13007.0 of which Rs. 3566.7 is internal and Rs. 9440.7 is external.

- The internal debt service ratio was below 0.68 till 1993/94 but after 2004, it has increased rapidly and reached 1.08 in 2007/08. This reflects the growing challenge to serve debt form internal resource mobilization. It may compel government either to cut development expenditure or to take fresh loan for financing old loan.

- The ratio of external debt service to export was 14% in the fiscal year 1990/91, which increased up to 17% in between the fiscal years of 1997/98 and 1998/99. The government is unable to reduce this ratio significantly due to the low export capacity and increasing debt service obligation.

- The increasing volume of net transfer reveals that there is increasing dependence on the external borrowing for imports. After 2003, the volume of net transfer started to fall and turned out to be negative after 2005. This suggests the increasing trends of imports and debt servicing.

- Regarding the sustainability of debt, the necessary condition is found fulfilled for the whole study period of 1990/91 - 2007/08. But the sufficient condition is not fulfilled after 2004/05. This suggests the incapability of government of finance additional debt burden in the recent years.

CHAPTER V

SUMMARY, CONCLUSION & RECOMMENDATIONS

5.1 Summary

The need for public debt in Nepal is due to various reasons: increasing saving-investment gap, widening budgetary deficit, widening current account deficit and increasing public outstanding debt with increasing high debt servicing obligations. Increasing negative trade balance both in absolute terms and as percentage of GDP is another reason for public debt. When public debt is taken as the source of financing the revenue gap, prudential norms should be used. Due to excessive public debt without proper management, an alarming situation of debt trap should be faced by the economy. For the better public debt management, the export earning, the revenue growth and real interest rate structure should be on favorable condition in future to pay off the debt.

The study of the budgetary trend of past 18 Years of Nepalese economy discloses that the budget deficit is increasing each year since government expenditure and revenue are not growing in the same rate. The reliance on external assistance is increasing more than 50 percent of development expenditure as this type of expenditure is being financed through foreign assistance in most of the years between 1990/91-2007/08. External borrowing has been the major source of financing deficit in government budgets. Since the external debt accounts more than 85% of total debt, Nepal is heavily indebted from external debt.

Public debt has been considered as one of the major source of public finance for growth with stability in Nepal. But it has to be on manageable limit. Hence, the research has main goal to examine trend and structure of public debt and the problem of debt servicing in Nepal.

This study has employed mainly simple analytical tools like ratio and average to analyze the trend and structure of total, internal and external debt of Nepal covering the period 1990/91-2007/08.

Nepal has practiced financial budget deficit through public debt with the implementation of planed development. The annual growth of government expenditure and slow growth of revenue has caused resource gap every year. The domestic resources gap gas been observed increasing annually by 9.1 percent. But the annual rate of change of domestic resource gap shows very irregular trend. This might be due to the unstable nature of external loans. Pubic debt is increasing form both internal and external sources. But the reliance on external debt to finance fiscal deficit is in decreasing trend and in fluctuating manner. The role of domestic borrowing for resource mobilization is increasing. But the domination of banking system in the internal borrowing of the government is remarkable.

The composition of bilateral and multilateral loans is found changing in the study period. The bilateral loan has a decreasing trend and multilateral loan has an increasing trend over the period 1990/91-2007/08.

Burden of both internal and external debt have been found increasing in the study period. The ratio of internal debt to GDP nearly doubled in the period 1990/91-2007/08. The ratio of external debt to GDP is increasing rapidly which may create external debt crisis in future. This might be due to the lack of proper management of external debt.

The per capital has also shown an increasing tendency. In fiscal year 1990/91, it was Rs. 1870.6 in which Rs. 670.5 was internal and Rs. 1200.1 was external. In 2007/08 this increased to Rs. 45007.4 in which Rs. 3566.7 was internal and Rs. 9440.7 was external.

The internal debt service ratio was below one percent till 2003/04 which increased to 1.08 percent in2007/08. The rise in the ratio reflects that the government has serious challenges to serve debt form internal resource mobilization. This situation has compelled government to serve debt either by cutting down the development expenditures or raising additional debt to serve the debt which is considered as the symptom of debt trap.

External debt service ratio is also increasing with fluctuating manner over the study period. In 1990/91, it was 14 percent which increased to 17 percent in FY 1997/98 and 1998/99. In 2007/08 it was 14 percent. The government is unable to reduce this ratio significantly due to the low export capacity and increasing debt service obligations.

The disbursement of loan has increased continuously each year till 2002/03. The external debt service amount also increased along with net transfer till 2002/03. The continuous increment in the net transfer reveals the increasing dependence on the external borrowing for import. After 2003, the volume of net transfer started to fall and it turned out to be negative in 2004/05. He dependence on the external resource transfer has decreased in Nepal. But, the increased foreign debt service has to be served from export earnings. This situation points out that there is a chance of borrowing for debt service purpose of the exports trade deteriorates in future.

The growth rate of real GDP has been higher than the growth rate of real interest rate in the study period. This reflects that in spite of the persistent rise in ration of debt to GDP, the debt sustainability is assured by the government. Similarly, the growth rate of real GDP is greater than growth rate of nominal debt till 2000/01. After 2002/03, it is reversed. This indicates that debt is not sustainable for financial stability. This warns the government to change debt policies for its sustainability.

The study of sufficient condition of debt sustainability shows that primary surplus is less than debt servicing. This indicates incapability of government to finance additional debt burden in the recent years.

5.2 Conclusion

The following are the major conclusions drawn from the analysis:

1. The average annual growth rate of fiscal deficit in terms of GDP shows decreasing tendency which might have been due to the increasing trend of foreign grants and revenue from remittances.

2. The share of external loan in total is increasing which might be due to excess reliance on external loan for financing fiscal deficit.

3. The major source of internal loan is banking which is nearly three fourth to total loan. Banking sources for internal loan is supposed to cause inflation in the economy.

4. The share of multilateral loan in total loan is increasing. Similarly, the indebtedness of internal and external debt in absolute terms and with respect to GDP is increasing.

5. The internal debt service ratio has increased rapidly. This may compel government to cut development expenditure or take fresh loan for financing old loan.

6. The ratio of external debt service to export does not appear to have been reduced due to the low export capacity and increasing debt service obligation of the government.

7. The position of net transfer suggests the increasing trend of imports and debt servicing.

8. The primary surplus less than debt servicing suggests the incapability of government to finance additional debt burden in the recent years.

5.3 Recommendations

The following are major policy suggestion made on the basis of the findings of the study:

1. To maintain the level of public debt in prudential limit, fiscal discipline rule is to be introduced in Nepal. The level of debt outstanding should be fixed by some type of legislation framework suitable for the existing situation of Nepalese economy.

2. The efficiency of the government to collect revenue should be strengthened. So that the rapidly growing public debt can be controlled. Similarly, the privatization of public enterprises should also be used as policy measure to control government expenditure.

3. The existing level of debt, the debt to GDP ratio should continuously reviewed by the concerned government authority to set a long-term debt management.

4. The government should always monitor some macroeconomic indicators for debt management such as real GDP and real interest rate, growth rate of internal debt and growth rate of nominal GDP and primary surplus.

5. Government has to take more internal loan than the external loan to reduce the loss of Nepalese currency to service foreign debt.

6. The burden of external debt should be minimized by approaching for core grants. This may required more liberal economic policies.

The supply capacity of the economy should be strengthened for the export promotion and import substitution. So, public debt should be used to build infrastructure of development. External loans should be less conditional as far as possible.

Annex - I

Gross Domestic Product and Its Growth Rates

Fiscal Year	NGDP (Y) (Rs. In Million)	RGDP (Y) (Rs. In Million)	Growth Rate of NGDP	Growth Rate of RGDP
1990/91	73170.0	148405	-	-
1991/92	85831.0	166478.0	17.30	5.44
1992/93	99702.0	163893.0	16.16	4.74
1993/94	116127.0	174908.0	16.47	6.72
1994/95	144933.0	183371.0	24.18	4.84
1995/96	165350.0	188780.0	14.09	2.95
1996/97	191596.0	204397.0	15.89	8.27
1997/98	209976.0	209976.0	9.59	2.73
1998/99	239388.0	121930.0	14.01	5.69
1999/00	269570.0	233040.0	12.61	5.01
2000/01	289797.0	240816.0	7.50	3.34
2001/02	330018.0	251758.0	13.88	4.54
2002/03	366251.0	267096.0	1098	6.09
2003/04	393566.0	279749.0	7.46	4.74
2004/05	404482.0	278471.0	2.77	-0.60
2005/06	428477.0	285061.0	5.93	3.42
2006/07	464897.5	294753.0	8.50	3.40
2007/08	496045.6	312121.0	6.70	2.50

Source: Economic Survey Various Issues of 2003/04-2007/08, NG.

Note: Real GDP is in 1996/97 Prices.

Annex - II

Total Debt and Its Composition

Fiscal Year	Internal Debt (Rs. In Million)	External Debt (Rs. In Million)	Total Debt (Rs. In Million)	Growth % of		
				ID	ED	TD
1990/91	11075.7	20826.0	31901.7	-	-	-
1991/92	12262.6	29216.9	41479.5	10.72	40.29	30.02
1992/93	13912.6	36800.9	50713.5	13.46	25.96	22.26
1993/94	20095.4	59505.3	79600.7	44.44	61.70	56.96
1994/95	21823.9	70923.9	92747.8	8.60	19.19	16.52
1995/96	23277.9	87420.8	110698.7	6.60	23.26	19.35
1996/97	28453.0	101966.8	130419.8	22.23	16.64	17.82
1997/98	29470.8	113000.9	142471.7	3.58	10.82	9.24
1998/99	31596.7	128044.4	159641.1	7.21	13.31	12.05
1999/00	33275.7	132086.8	165362.5	5.22	3.16	3.57
2000/01	35414.0	161208.0	196622.0	6.25	22.05	18.93
2001/02	45809.6	1698465.9	1744275.5	29.35	5.12	9.49
2002/03	50707.0	190691.2	241398.2	10.69	12.52	12.13
2003/04	56155.6	200404.4	256560.0	10.75	5.09	6.28
2004/05	69110.0	220125.6	289235.6	23.67	9.84	12.87
2005/06	80473.7	223433.2	303906.9	15.87	0.85	4.45
2006/07	86133.7	232779.3	318913.0	7.03	4.80	5.40
2007/08	87564.3	235204.0	322768.3	16.60	1.04	12.08

Source: Economic Survey various issues of 2003/04-2007-08, NG and Quarterly Economic Bulletin 2003/04-2007-08,NRB.

Annex - III

Total Debt and Its Composition

Fiscal Year	Treasury Bills	Development Bonds	National Saving Certificate	Citizen Saving Certificate	Special bonds	Total Internal Debt
1990/91	4090.0	4651.7	2196.5	0	697.8	11636.0
1991/92	1171.0	5088.6	2196.5	0	4431.8	12887.9
1992/93	1821.0	5388.6	2896.5	0	4567.0	14673.1
1993/94	2351.0	5482.3	3646.5	0	9376.1	20855.9
1994/95	3483.2	5132.2	4546.5	0	10073.2	23234.9
1995/96	4403.2	5152.2	4901.5	0	11019.2	25476.1
1996/97	5216.3	4732.2	5691.5	0	14991.2	30631.2
1997/98	6392.5	4122.2	6076.4	0	15466.7	32057.8
1998/99	7142.5	3672.3	7376.5	0	16050.7	34241.9
1999/00	8092.5	3042.2	8736.5	0	16019.7	35890.9
2000/01	9182.5	3302.2	9886.4	0	16035.6	38406.7
2001/02	17586.9	3872.2	10426.4	0	17784.1	49669.6
2002/03	21026.9	4262.2	11526.4	0	17541.4	54356.9
2003/04	27610.8	5962.2	12476.4	0	13994.3	60043.7
2004/05	41106.6	11090.7	11536.3	628.1	9259.4	72993.0
2005/06	48860.7	16059.2	9629.8	931.1	9164.5	84645.3
2006/07	49429.6	17540.2	9029.8	NA	8946.2	84956.6
2007/08	51383.0	19999.2	6576.8	NA	8176.3	86135.3

Source: Economic Survey various issues of 2003/04-2007-08, NG and Nepal Rastra Bank, Public Debt Management Department.

Annex - IV

External Debt and Its Components

(Rs. In Million)

Fiscal Year	Total External Loans (1)	Bilateral Loans (2)	Multilateral Loans (3)	2 as % of 1	3 as % of 1
1990/91	3094.3	462.5	2631.8	14.9	85.1
1991/92	4194.7	507.8	3686.9	12.1	87.9
1992/93	4628.3	1006.0	3627.7	21.6	78.4
1993/94	4360.0	1602.8	2757.2	36.8	63.2
1994/95	6269.4	2389.8	3879.6	38.1	61.9
1995/96	5961.7	1307.6	4654.1	21.9	78.1
1996/97	9163.6	582.9	8580.7	6.4	93.6
1997/98	7314.2	717.3	6596.9	9.8	90.2
1998/99	9463.9	460.0	9003.9	4.9	95.1
1999/00	9043.6	850.7	8192.9	9.4	90.6
2000/01	11054.5	1314.5	9740.0	11.9	88.1
2001/02	11852.4	584.0	11268.4	4.9	95.1
2002/03	11812.2	757.9	11054.3	6.4	93.6
2003/04	12044.0	586.7	11457.3	4.9	95.1
2004/05	8481.6	873.6	7608.9	10.3	89.7
2005/06	7698.7	87.0	7611.7	1.1	98.9
2006/07	4546.4	657.2	3889.2	14.5	85.5
2007/08	11111.0	453.5	10657.5	4.08	95.9

Source: Economic Survey various issues of 2003/04-2007/08, NG and Quarterly Economic Bulletin 2003/04-2007/08, NRB.

Annex - V

Fiscal Deficit and Sources of Financing

(Rs. In Million)

Fiscal Year	Budgetary Expenses	Budgetary Income	Fiscal Deficit	Foreign Loans	Internal Loan	Loan from	
						Banking Source	Non-Banking Source
1990/91	14105.0	9427.2	4677.8	3815.8	1130.3	979.7	339.4
1991/92	18005.0	9457.5	8547.5	5666.4	1330.0	1320.0	10.0
1992/93	19669.3	11262.9	8406.4	5959.6	2150.0	1450.0	700.0
1993/94	23459.8	12894.7	10655.1	6256.7	4552.7	3713.2	839.5
1994/95	26418.2	15156.5	11261.7	6816.9	2078.8	1178.8	900.0
1995/96	30897.7	18941.7	11956.0	6920.9	1620.0	920.0	700.0
1996/97	33597.4	21974.4	11623.0	9163.6	1820.0	1000.0	820.0
1997/98	39060.0	28512.3	10547.7	7312.3	1900.0	1300.0	600.0
1998/99	46542.4	32718.2	13824.2	6463.9	2200.0	750.0	1450.0
1999/00	50723.7	36361.8	15361.9	9043.6	3000.0	1500.0	1500.0
2000/01	56118.3	38340.5	17777.7	11054.5	3400.0	1600.0	1800.0
2001/02	5957.9	41587.6	17991.4	11852.4	4710.0	2850.0	1860.0
2002/03	66272.5	48605.5	17667.0	11812.2	5500.0	3300.0	2200.0
2003/04	79835.1	55647.0	24188.1	12044.0	7000.0	4988.9	2011.1
2004/05	80072.2	57131.6	22940.5	7698.7	73621.0	54865.5	18755.6
2005/06	84006.1	63622.3	16437.2	4546.4	84708.5	63155.0	21553.5
2006/07	89442.6	73614.4	15828.2	7629.0	86196.8	62935.1	23261.7
2007/08	100937.3	81292.8	19644.5	8814.0	86769.3	63507.6	23261.7

Source: Economic Survey various issues of 2003/04-2007/08, NG and Quarterly Economic Bulletin 2003/04-2007/08, NRB.

Annex - VI

External Sector Performance

(Rs. In Million)

Fiscal Years	Export	Import	Trade Balance	Direct External Borrowing	External Debt Service	Net External Transfer	Internal Debt Service	Revenue Receipt	Revenue Expenditure	Primary Surplus
1990/91	4127.3	13893	-9765.5	3156.6	596.5	25601.0	850.6	7350.4	4677.0	2673.4
1991/92	4211.1	16297	-12085.7	4633.8	693.0	3940.8	1019.4	7776.9	5676.2	2100.7
1992/93	5169.9	18366	-13195.6	6479.8	907.8	5572.0	1155.6	9287.5	6671.8	2615.7
1993/94	7403.3	23256	-15852.4	4709.2	1047.2	3662.0	1320.9	10729.9	7570.3	3159.6
1994/95	13726	31987	-18261.4	8152.5	1688.7	6463.8	2132.2	13512.7	9905.4	3607.3
1995/96	17286	39260	-21973.5	6478.8	2129.8	4349.0	2428.6	15148.4	11484.1	3664.3
1996/97	19316	59629	-40312.7	9527.5	2457.0	7070.5	2366.4	19580.8	12409.2	7171.6
1997/98	17680	63740	-46060.1	11611.8	3275.2	8336.6	3098.6	24575.2	19265.1	5310.1
1998/99	19913	74571	-54658.1	9446.8	3300.1	6146.7	3411.1	27893.1	21561.9	6331.2
1999/00	22663	93662	-70998.8	10117.0	3354.2	6762.8	4177.8	30373.5	24181.1	6192.4
2000/01	27540	89154	-61613.5	12091.2	1052.2	8039.0	3481.6	32937.9	24174.4	5763.5
2001/02	35693	87695	-52002.3	10726.8	4173.6	6553.2	3977.5	37251.0	31047.7	6203.3
2002/03	49845	108624	-58779.7	12540.4	5265.2	7275.2	4711.4	42893.8	34523.3	8370.5
2003/04	55677	115797	-60120.5	11982.2	6206.7	5772.7	4187.0	48893.6	42769.2	6124.4
2004/05	47560	106873	-59313.6	8040.3	8642.6	-6023.0	5637.7	50445.5	48590.1	1855.4
2005/06	50076	122203	-72126.9	5184.1	7690.3	-2506.2	8661.7	55250.0	52556.4	2693.6
2006/07	53911	136277	-82366.4	9605.4	7907.9	1697.5	6115.0	60480.0	55552.1	4927.9
2007/08	58706	132187	-73481.1	6703.7	8099.9	1396.2	7601.8	701340.7	63177.3	7016.7

Source:- Economic Survey various issues of 2003/04-2007/08, NG and Quarterly Economic Bulletin 2003/04-2007/08, NRB

Annex – VII

Indebtedness and Debt Service Ratio

FY	ID/Y	ID/y	ED/Y	ED/y	TD/Y	TD/y	EDO/X	EDS/X	TDS/X	NT/M	FD/Y	FD/y
1990/91	0.07	0.15	0.14	0.28	0.21	0.44	5.05	0.14	0.349	0.18	-0.06	-0.03
1991/92	0.08	0.14	0.19	0.34	0.27	0.48	6.94	0.17	0.409	0.24	-0.10	-0.05
1992/93	0.08	0.14	0.22	0.37	0.31	0.51	7.12	0.22	0.441	0.30	-0.08	-0.05
1993/94	0.11	0.17	0.34	0.51	0.46	0.69	8.04	0.15	0.325	0.16	-0.09	-0.06
1994/95	0.12	0.15	0.39	0.49	0.51	0.67	5.17	0.12	0.277	0.20	-0.08	-0.06
1995/96	0.12	0.14	0.46	0.53	0.59	0.64	5.06	0.12	0.264	0.11	-0.07	-0.06
1996/97	0.14	0.15	0.50	0.53	0.64	0.68	5.28	0.13	0.251	0.14	-0.06	-0.06
1997/98	0.14	0.14	0.54	0.54	0.68	0.68	6.39	0.17	0.344	0.13	-0.05	-0.05
1998/99	0.14	0.13	0.58	0.53	0.72	0.67	6.43	0.17	0.337	0.08	-0.06	-0.06
1999/00	0.14	0.12	0.57	0.49	0.71	0.61	5.83	0.15	0.332	0.07	-0.05	-0.06
2000/01	0.15	0.12	0.67	0.46	0.82	0.68	5.85	0.15	0.279	0.09	-0.06	-0.07
2001/02	0.18	0.14	0.67	0.51	0.86	0.65	4.75	0.13	0.244	0.07	-0.05	-0.07
2002/03	0.19	0.14	0.71	0.52	0.90	0.66	3.83	0.11	0.201	0.07	-0.05	-0.07
2003/04	0.20	0.14	0.72	0.51	0.92	0.65	3.60	0.11	0.187	0.05	-0.06	-0.09
2004/05	0.25	0.17	0.79	0.54	1.04	0.72	4.63	0.14	0.257	-0.01	-0.06	-0.08
2005/06	0.28	0.19	0.78	0.52	1.06	0.71	4.43	0.15	0.345		-0.05	-0.07
2006/07	0.28	0.18	0.74	0.49	1.02	0.67	4.32	0.14	0.279	0.12	-0.05	-0.09
2007/08	0.27	0.17	0.74	0.47	0.99	0.63	4.04	0.14	0.187	-0.11	-0.06	-0.08

Source:- Economic Survey various issues of 2003/04-2007/08, NG and Quarterly Economic Bulletin 2003/04-2007/08, NRB

Note: EDS = External Debt Service, EDO = External Debt Obligations, TDS = Total Debt Services, NT= Net Transfer, X= Export, M= Import, FD = Fiscal Defect.

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