CHAPTER - I

INTRODUCTION

1.1 Background of the Study

The first time an ancient monarch borrowed a large sum of money from a rich neighbor agreed repay the money with interest and wrote this up a piece of papyrus, which invented the concept of debt . Even though, concept of public debt was originated in Great Britain in 17th century. In such period merchants provided grant and loan to the government. In returned, they got the privilege Royal Chapter to fund the bank of England, which become the country's central bank. Public debt has-developed simultaneously with the need of the state's development. After the Second World War, government' borrowing was increased to develop the economies and used the huge sum amount for the reconstruction, rehabilitation, and maintenance.

Conscious people, a reasonable abundance of natural resources, a sprit of enterprise, a technically trained labor force and dedicated civil servants are the essential requirements for achieving rapid economic development but capital formation or mobilization of financial resources is fundamental to the whole problem of economic development. It is true that a large supply of capital is not a sufficient condition for economic development but increased capital is obviously a necessary commitment of it. To ensure an adequate supply of capital without which economic progress cannot be achieved, appropriate method of mobilizing financial resources have to be adopted. As using the wrong method can wreck even the best plans.

In underdeveloped countries one of the tasks foremost to the state is to stimulate the growth of the economy with stability. In most of them is escape from “vicious circle of poverty”. There is small capacity to caving owing to a loan level of real income. Low income is a reflection of low productivity, which is usually due to the lack of appropriate technology of capital equipment of the capacity to use them to the best advantage.

Lack of capital is resulted largely from the small potentiality of saving. This in turn is resulted form the low level of investment. Hence, the poverty sequence moves like 'inadequate capital' low productivity, low real income level and low purchasing power, inadequate inducement to save and to invest and adequate capital gain. This justify that capital deficiency in the developing countries is a serious bottle neck for the development.

According to Indian planning commission, "The term deficit financing is used to denote the direct addition to gross national expenditure through budget deficit whether the deficits are on current revenue or of capital account. The essence of such a policy lays therefore the government spending in excess of the revenue, it receives in the shape of taxes, earning of state enterprises, loan from public, deposit funds and other miscellaneous sources. The government may cover either by running down its accumulated balance or by borrowing from banking system mainly from the central bank of the country and thus creating new money".

Most of the underdeveloped countries have market imperfection. In rural economies low agricultural productivity and pressure of population are the main problems. People have low income level and thus low saving of the peasants and the middle classes. The only good domestic source for government is the banking and non banking institution but most of the people are poor, small saving capacity, analogized, merchandise can only help in tapping their saving. Furthermore, in underdeveloped countries banking system is not well organized and so is the position of money and capital market.

The deficit financing is excess of expenditure incurred by the government over the receipts they get by the method of taxes, fee, loans from internal saving and other miscellaneous items including external assistance in the shape of grants and loans. It has been regarded as a means to cover the gap of financial resources for adequate internal and external monetary sources in order to fulfill the physical targets of the plans.

The objectives of public debt in developing countries is that the public debt should be used as an instruments to mobilize saving of the people, which would otherwise have gone to ideal or wastefully consumption. Public debt should be advocated creating additional capacity and producing capital equipments. Generally, government borrows for the creation of infrastructure in the economy. Since it requires huge investment initially this cannot be meet only through revenue collection. The aim of public debt policy should be to help in strengthening the money and capital market, which in turn accelerate development and price stability. The government of developing countries can mobilize saving of the community partly through the device of public borrowing in order to meet the financial needs of its development programs. Most of the under developed countries have limited sources of revenue and excess need of development expenditure. There is mismatch between revenue and expenditure in one hand and in another investment on infrastructure development is needed due to this reason abundant resources are not available through the revenue, in such situation public debt can play major role of raising resources for development finding.

Hence, in modern era to financing the excessive increased development expenditure borrowing is an effective instrument for mobilization of resources which is less inflationary. Nobody wants to pay more tax unless there is more return. So increase in tax is against of public willingness. No one government wants to make anger for their people. Then only one release source is not more than borrowing. Taxation constitutes a method to forced savings; public borrowing is a device to utilize a substantial part of voluntary savings for financing the development plan of the public sectors. Public borrowing is the source of revenue mobilization has certain advantages over taxation. It pushed beyond a certain limit has adverse affects on economic incentives but public borrowing even though it involves the withdrawal of resources by curtailing consumption just like taxes. It does not produce an unfavorable reaction on incentives partly because of its voluntary nature and party because of it's the exception of repayment.

The rural sectors of the developing countries appear the largest sector and a substantial volume of saving may originate in this sector. But it is not in reality, since most of the financial and banking institutions are city oriented. So, there is a problem of rural saving. There is also existence of barter economy; people have no capacity and willingness to save due to poverty and illiteracy. Financial sectors are far behind too intense the people for saving and investment activities. Mobilization of rural income has not any contributive impact on the economy. Mass of the people expenses their large part of money in unproductive purpose such as hoarding ornaments, building luxurious houses, fashion, entertainment, religious work, journey etc. which has not any contribution to mobilize available domestic currency to development works. Values and institutions have also negative impact for the development of physical and financial sectors.

Development of financial sector is essential to strengthen the economy. Money and capital markets are the main indicators of development, which can play major role for providing government borrowing as a short term or long term. But without development of it how we can mobilize essential resource through borrowing. So, it is essential to develop financial institutions. The government of developing countries is facing many problems relating to public borrowing. Firstly, the source of debt is narrowing due to low organize level of domestic savings and inadequate banking facilities in rural areas rather than urban areas to assemble the saving for the national development. Secondly, the capital market is in primitive stage and the organized private sector is not enough to fulfill the necessary amount of money to spend in securities and bonds. In addition, investment in developing countries, which occurs in real estates, which reduce the liquidity of the people and in turns hinders the borrowing from non banking sector is very limited.

Public debt has played key role for the development process because 'public debt' and 'economic development' are the complementary in economy. Public debt was retreated the most of the concern with the economical and financial development of the nation. Many of the countries in the world resorted and still resorting the public debt, though the system and practice on the debt management might be different among them.

Public borrowing is the means for to meet deficit financing of the economy. It has very close relation with borrowing both internal and external. Borrowing is easy source to finance deficit in both developed and underdeveloped countries. Thus, the underdeveloped country has to depend upon foreign assistance and external borrowing. Domestic resources like taxation and borrowing have their own constraints and under such circumstances deficit financing cannot also be recommended because of its inflationary effects. So, foreign loan can act as an important instrument for raising additional finance within a short period of time. This assistance can help in achieving the objective of developing economy such as economic stability and growth, if the funds are properly utilized on productive purposes. There is no doubt public debt is one of the major sources for development financing in underdeveloped countries.

1.2 Public Debt in Nepal

Nepal is facing a serious and growing financial resource gap problem and the government cannot repay entirely upon the tax revenue, surplus of public under taking and deficit financial and internal financial resources. On the other hand the volume of public expenditure has been increasing and so the budgetary deficit has been increasing. For meeting the these increasing deficits, government has been raising funds from both internal and external sources like treasury bills development bond ,foreign aids, loan grant etc. for utilization of such sources, the should manage properly.

There are various aspects of public debt management. The most important aspect is 'the level and the rate of growth' in public debt. Public debt is important especially in developing countries like Nepal. The reason is that, governments in developing countries tend to spend more than their revenue. They find less resistance in bridging the gap between their total spending and the revenue through borrowing regardless of productive or unproductive use of public debt. Generally, debt has face value of Rs. 1000 and holder of debt securities gets interest at annual or semiannual basis on the amount invested. The procedure for payment of interest and principal is stated in the bond indenture. Interest is paid to the holders before the divided payment to the equity holders.

According to Visma Upreti, in his article' public debt in Nepal' has written that the earlier king of Malla dynasty had borrowed the assets from the renowned temple and social trust to hold the battle and overcome many emergency situation. The great king Prithivi Narayan Shaha was also indebted by the people in the expedition of unification of the nation.

Some instance of public debt in Nepal can held during the time of Rana Bahadur Shah, who borrowed Rs.60, 00,000 from Indian merchant to meet the internal administrative needs. At the time of late prime minister, Chandra Samser Rana had also borrowed loan from the trust of Pashupati temple to release the slavery in Nepal.

Nepal began to issue domestic debt as a source of deficit financing and instrument of economic since 1961/62.It was just Rs.605 million and government raised Rs.131 million in 1963 with the means of development in Nepal. Plus, government issued the public debt regulation in 1963. In the same period the government issued compensation bonds for land acquisition with the interest rate 3% per annum and with the maturity period of 10 years, amounting Rs.407 thousands and compensation bonds for same with 1% interest rate per annum with maturity period of 20 years amounting Rs.5.56 million. The other component of the borrowing was from Nepal Rastra Bank as guaranteed loans and special bonds. The government also started to borrow since 1984 by issuing national saving certificate, which amounted Rs. 5,000 million that year. Similarly in 1991 the government started to borrow by issuing CB pass and other bonds, which amounted to Rs.8, 478.1 million that year.

Nepal has also started to borrow from abroad since 1964. The loan, grants and any kind of financial obligation to abroad be being used to bridge the budgetary deficit. The main sources of the external public debt are developed countries, international financial agencies, the IMF, Word Bank, ADC etc.

Such a way, the government has been borrowing the money continuously from internal and external sources. For example, internal loan taken by the government totaled Rs.87 billion 564.2million by mid-July 2005. It increased by 8.16 million to the total of Rs.94 billion 710.6 million in mid-Julys 2006. Of this total, loan owed to Nepal Rastra Bank was Rs.15 billion 800.5 million (16.69 percent), to commercial banks Rs.58 billion 800.5 million (62. 15 percent) and Rs.20billion 44.2 million (21.16 percent) million to other corporations and private sector. Among the instruments of internal loan, treasury bills shared 66.49 percent, development bonds 18.96 percent; National savings bond 4.09 percent, citizen's savings bonds 1.77 percent and that of special bond is 8.68 percent.

In fiscal year 2004/05 outstanding foreign loan totaled Rs.219 billion 641.9 million. In the fiscal year 2005/06 outstanding foreign loan increased by 6.5 percent and amounted to Rs.233 billion 968.6 million.

1.3 Statement of the Problem

The major problem almost developing countries and Nepal is no exception is that of capital formation and proper utilization. Taxation is not sufficient to raise the funds for development due to low per capita income even though; it plays the vital role for the formation of financial sources. Even though, tax is not sufficient to pay the expenditure, so about 80% of budgetary deficit was financed by external borrowing. In most of the fiscal years which shows Nepal's dependency on foreign debts. But it will create serious problem in the country. To escape from external debt and servicing problem, good policies can be adopted to make the economy less dependent and to improve the term of borrowing.

External and internal debt has been increasing rapidly each year. Increasing trend of borrowing, debt servicing capacity of the country has not been increasing with the same path. So Nepal is facing the problem of acute financial resource gap and cannot relay entirely upon the tax revenue, surplus of public undertaking and deficit financing and internal financial resources. The volume of public expenditure has continuously increasing which creates the cause of increasing budgetary deficit.

The growth rate of outstanding public debt and debt servicing obligation has outpaced the growth rate of GDP, export earning and government revenue. Our country is more heavily indebted for, external debt than internal one. The huge amount of borrowing raises several issues like burden of public debt, increasing volume of debt servicing both external and internal loan. Though the burden of public debt has been a controversial issue among economist, yet its viable impacts are seen in the form of debt servicing landing to the situation of debt trap, Nepal is also, to a large extent, facing ever increasingly trade deficits and investment domestic saving gaps, which are most significant indicators of macros economic imbalances. These make necessity for excessive dependency upon foreign assistances.

There are various sources like internal and external by bilateral and multilateral of borrowing which can be used for immediate balance of payments difficulties, but creates the problems like burden of interest payment. There may be political or other factors attached to the public borrowing also are subject to the conditions of prevailing in the lending countries.

In recent years, Nepal has been raising public debt from external and internal sources, which has been increasing very rapidly particularly after 1990 when multiparty democratic system was reinstated in Nepal. It is very natural and common to know the ever-increasing magnitude of public debt must be accompanied by an increase in the debt serving capacity. So, that economy may not go under any undue strain on the balances of payments.

1.4 Justification of Study

The process of economic development in Nepal was started with the implementation of the first five years plan in 1956. Since then the magnitude of development outlays has been increasing because of the growing for fund. Particularly after 1970 the volume of budgetary deficit has been form both external and internal sources.

Deficit budget is the sticky and ever occurring features of Nepalese budgetary system. It is persistently becoming the great tension since the first budget in Nepal. The major proportion of the deficit incurred in the budget has been balanced by borrowing the public debt. If the debt raising to balance the budget or for any of purpose is disbursed properly it may play the important role in the country for the economic and commercial development. Especially if it would have used for acquiring income earning assets or projects of the government or on these heads, which add to the productivity of the countries economy as a whole, it encouragingly results the nation towards the prosperity.

Nepal is facing a serious and growing fiscal deficit and on the other hand problem of inflation. The government cannot relief entirely upon the tax revenue, surplus of public undertaking and deficit financing and internal financial resources. Public debt is not better to use in battle, administrative expenses and for army and police organization or on many other unproductive programs which may cause of economic decrepitude of the nation. In spite of this obvious warning Nepal's government is borrowing the large amount of debt to use for the battle, for the army, police, for the Maoist army and government has been going to use the huge sum of money for the election of constitutional assembly(2006), which are unproductive programs. This is clear-cut instance of government's negligence to economic discipline.

So, Nepal's debt burden continues to grow each year, from an already serious to a critical situation. Taking this grim fact, we need for study of the public debt since 1989/90 to 2005/06 for mobilizing on additional financial resource is a comparatively modern phenomenon and has come into existence with the development of democratic form of government.

1.5 Objectives of the Study

The main objective of the study is to examine and analyze the trends, structure and burden of public debt in Nepal and suggest and recommends the ways of optimal utilization of debt. The specific objectives of the study listed below

- To analyze the trend and structure of public debt in Nepal.
- To analyze the burden of public debt serving problem of Nepal
- To examine the impact of public debt in G.D.P
- To suggest and recommend for utilization of debt on the basis of major finding.

1.6 Significance of the Study

This study will be important for the following group and individual:

- This study is important for those who want to obtain knowledge about the public debt management of Nepal.

- It is useful for the people and institution that are purchased government securities, National saving certificates, Treasury bill, development bond, special bond, national/citizen saving certificates.
- This study may be little reference for the budgetary system which is applying now.
- This study is useful for the university students who are interested to know the trends and structures of public debt of Nepal.
- This study helps to provide literature about the burden of public debt for further researcher.

1.7 Limitation of Study

This research is performed for the partial fulfillment of the requirement for the M.B.S degree. The study has limited scope because of time constraint and depends upon secondary data published from Nepal Rastra Bank, ministry of finance. The study has been bounded the following limitations:

- The study is based on published secondary data and information such as budget speech, economic survey, public debt newsletter (NRB) and publication of ministry of finance.
- No attempt has been made to examine the reliability of the data.
- This study only covers the 17 years data from 1991/912 to 2005/06.
- This study has not attempt to examine the effect of external borrowing of micro economic aspect such as money supply, price level, inflation, employment and poverty elevation.
- This study deals with limited financial and statistical tools only.

1.8 Organization of the Study

The study has been organized into six chapters. They are:

Chapter one : Introduction

Chapter two : Review of literature

Chapter three : Research Methodology

Chapter four : Presentation and analysis of data.

Chapter five : Summary, Conclusion and Recommendation.

The contents of each of the chapters of study are briefly mentioned below:

Chapter - I: It contains the introduction of the study. It includes background and focus of the study, statement of the problems and objectives, significance, limitations and o organization of the study.

Chapter - II: It states the theoretical framework and review of related studies.

Chapter -III: It explains the methodology used in this research to find the result for meeting the objectives set in the chapter one. It includes research design, population and sample, sampling procedure, sources of data, data collection techniques, research variables and data processing procedure and analysis tools.

Chapter - IV: It includes the presentation and analysis of public debt and relatives variables. It includes the presentation and analysis of data collected from opinion survey and major findings. First part covers only trends and structure of Public debt in Nepal, and second part covers burden of public debt in Nepal.

Chapter - V: States summary, conclusion and recommendations of the study.

CHAPTER - II

REVIEW OF LITERATURE

Review of literature is basically a stock taking of available literature in the field of research. It supports the researcher to explore the relevant and true facts for the reporting purpose in the field of study. In the course of research review of the existing literature would help to check the chances of duplication in the present study. Thus one can find what studies have been conducted and available.

2.1Conceptual Review

Generally public debt Refers to loans raised by a government within the country or outside the country. It is a modern invention and was not heard till the eighteen century. In the past, the way of living was very simple and borrowing was not very significant. The government budgets were very and the government also followed the policy of non-interpenetration in economic system. But in modern times, especially after the world depression of 129/30 the public authorities started to take interest in the economic development of nation. The government activity is expending vastly and without public borrowing. In this way, it has become past and parcel of the instrument of fiscal policy for the economic development of under-developed as well as for the developed countries.

The government of underdeveloped countries have limit to borrow due to low saving. This in turn is resulted from the low level of investment. Hence the poverty sequences more like inadequate capital, low productivity, low of real income and low purchasing power, inadequate capital gain. This justifies that capital deficiency in the developing 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.

Various economists have given the concept of public debt. Taylor (1971) has defined “the debt is the form of promises by the Treasury to pay to the holders of these promises a principle sum and in most instances interest on that principle. Borrowings are restored to in order to provide funds for financing a current deficit.”

Dalton (1984) have cleared about public debt and divided it by external and internal and defined them as a loan is internal, if subscribed by persons or institutions within the area controlled by the public authority which raises the loan; external, if subscribed by persons or institutions outside this area.

The public debt is not the new and keen matter. From the very beginning of 19th century economists have been arguing and discussing for and against it. Particularly the classical economists such as Pigou, T.R. Malthus, J.B.Say, C.F.Butable visualized their views against the government debt, where as post Keynesians and the modern economists have stood up for the government debt, but they all alternatively poured their sufficient statement upon its size and use (lekhi,1995)

2.2. Classical Review

The classical economists were generally against public borrowing but they approved public debt for only self- liquidating projects, In the words of R.A Musgrave, “self liquidating projects may be defined narrowly investment in public enterprises that provide a fee or sales income sufficient to service that debt incurred in their financing or they may be define broadly as expenditure projects that increase, future income and tax base. Such project permits serving (interest and amortization0 of the debt incurred in their financing without requiring on increase in their future level of tax.”

Classical economists such as Pigou, TR Malthas, JB Say,CF Batable had negative attitude towards public debts and they did not plead for increasing economic role of government. They have given their arguments that public debt creates burden on the economy because of unproductive nature. But they accepted the public debt only for self-liquidity and return generating projects. The classical philosophy propounded by Adam Smith and his supporters "Laissez fair" equates a sound and balanced budgetary policy which does not consider the fiscal deficit and hence, public borrowing. The classical say that – "just as private economic units should not run into a persistent deficit, the government should not also use persistent deficit." Moreover they state if debts are indispensable and inevitable for a particular period of time of it should be paid off as soon as possible.

The classical economist Lerner(1955) viewed " The internal debt may not have direct money burden in a community as a whole, since the payment of interest and to meet the debt burden involved simply transfer the purchasing power from are group of person to another to the extend the creditors and tax payers are the same there may not be any net burden at all on the community but to extend the creditors and tax payers belongs to different income groups the change in the distribution of income among different section of the community." So it is better to learn Dalton's arguments that " there us always a direct real burden of public debt because public securities are held mainly by the rich classes and progressive taxation is not likely to be so sharply progressive as to counter balance the inequalities in the distribution of income.

2.3 Recent Review

After the great depression of 1930s new way of thinking take place in the writing of 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 in the 1950s a development process of developing countries took place significantly. The growing need of fund was realized for meeting development requirements.

Capital deficiency resulted in increasing volume of budgetary deficit. The great depression of 1930s and the Keynesian revolution paved the way for the development of the modern theory of public debt as apart of functional finance. Those who follow Keynes are of the view that public debt is income generating and so it is not burden of the community.

According to the argument of Harold and Mouton “public debt as a national assets rather than Liability” and says that “it is essential for the prosperity of the country.”

Richard Goode 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.” The inference is that failure to restrict borrowing to the finance of investment will retard economic growth. A weakness of argument is that not all outlays classified as investment actually contribute to growth, while some expenditure usual classified as government consumption promote growth.

According to Professor S. E. Harric(1947) “ It assure elasticity in many supply and agreed that government expenditure could be productive and need not necessarily be wasteful and so case for public borrowing is strengthened .“
HL Bhatiya maintains the consideration to the public debt that –“public debt can form a base for the private credit structure of the economy, therefore it can be used quite effective for that purpose also”

Raja .J. Chellih (1961)observes that the ideal situation of one in which first revenue will meet subsidies other transfer, interest s payments and the greater part of current expenditure, debt finance will be used for meeting the government’s non remunerative capital formation, a proportion of current expenditure designed to increase social capital and productivity requirements of financial investments and second, the total of domestic borrowing will be determined in such a way that given the rate of domestic saving, the non-government sector will be to obtain a due share of saving and that there will be no need to borrow from the central bank more than current amount of seigniarage."

An interpersonal or international loan yields the burrower a real benefit. It enables him to consume or invest more than he is earning or producing. And when he pays interest or repays the loan he must tightened his belt reducing his consumption or his investment. In the case of national debt we have neither the benefit nor the burden. The belt can not be let out when burrowing and need not be tightened when repaying.

2.4 Historical Background of Public Debt

The idea of public debt is not the new and keen matter for the students of economics and finance. The concept of public debt was originated in the Great Britain in the seventeenth century, where a group city merchant provided grants and loans to the government. In return, they received the privilege of royal charter to fund the bank of England, which become the country's central bank. Public debt had developed simultaneously with the needs of the state's development. Historically, during the period of world war, the government borrowed large amount of loans to meet its expenditure. Economists have been arguing and discussing for and against it. Classical economist (Pigou, TR Malthos, JB say Stood against the Public debt where as Keynesians and modern economists developed the concepts for it.

After first and Second World War large amount of loans were borrowed for the reconstruction and maintenance. Formally, the state only had to maintain peace and prevent external disruption. But now every state should look after the economic development and public welfare in addition to conventional work activities. Therefore, the public debt has become one of the most useful instruments to generate income and to maintain the welfare state and economic development.

In the context of Nepal, even in the eighteenth century the general public had no power to provide to loan. They could provide human labor and goods for the government.

M.C. Regmi has stated in his publication entitled. “Economic History’’ that there was no public debt but government provided some regulations to maintain public finance before eighteenth century. Some instances of public debt in Nepal has been held during the time of Rana Bahadur Shaha who borrowed a large sum of money (Rs. 60, 00,000) from Indian merchants. In 1803 the government was forced to meet its internal expenses. A cash levy was imposed on a country wide basis to finance the repayment of debts incurred by king Rana Bahadur Shaha.Prime Minister Janga Bahadur Rana came in power and the development work was not incurred out. They had collected the revenue for the people. After the dawn of democracy, the first five years 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. 2708 million was from surplus balance account and loan from Nepal Rastra Bank.

Nepal’s experience in public debt, in an ongoing and documented basis, is fairly recent. In the process of obtaining public dept, (1962) by a year, the first foreign creditors being U.S.S.R.and the U.K. public transactions in Nepal falls under domain of public Debt Act 1960, and public Dept By-law 1963.After the enforcement of public Dept Act 1960, public dept for the first time was issued in Nepal 1962 through treasury Bills amounting to Rs.7 million. The text instrument of public debt, Development Bond, was first issued in fiscal year

1963/64, amounting to Rs. 250 million. Beginning Jan. 1992, Nepal Rastra Bank Bond began to be issued with the sole objectives of excess liquidity. It, however, has been suspended since April 1996.

In the context of evaluation of foreign Assistance, “Nepal’s first experience of foreign economic assistance was heralded by the POINT FOUR program agreement signed on 23rd Jan 1951. The U.S. government assistance of Rs.22 thousand provided under President Henry Truman’s POINT FOUR program was scone followed by assistance from India in October the sane year’. It was then followed by China (1956) and the U.S.S.R. (1958), membership of Colombo plan (1955) widened the number of donor countries and agencies. Formation of Nepal Aid Group (1976) also named as ‘Paris Club’ begin to accelerate the quantum of Foreign Aid move significantly in a planned way.

Similarly, Nepal has also started to borrow from external sources since 1964/65. Since then Nepal has to bridge financial resource gap in her budgetary position contributed to increase each year. The main sources of the external borrowing of Nepal are the government of the developed countries. Like International Agencies and Commercial Bank mainly the IME, the World Bank and Asian Development Bank.

2.5 Review of in International Context

The classical economists had 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 orser, justice and social security. Classical economists like J.B.Say, J.S. Mill, T.R.Malthus, and C.G. Butable have given their argument that “Debt creates burden in the economy because of its unproductive nature” Similarly, Adam Smith, the classical economist, opposed any use of public debt .He argument was “public debt leads to extravagance, encouraged resort to war and included generally disadvantageous economic conditions for the nation, which employed it.

Avramovic and Colleagues (1964), provided an useful frame work for the examination of external borrowing in terms of a country's debt serving capacity. Assuming that the country borrow only to help finance will conceived development programmers. They visualized three stages in external debt cycle. i. e. in the first stage, the country's saving is below the desired level of investment. It borrows from aboard to finance part of its investment and also to serve the external debt. The burden of debt servicing is continuously differed and the debt increase rapidly. In second stage, saving has grown enough to finance all domestic investment however the country continuous to borrow aboard to cover service cost of debt. The external debt grows but at a slower rate in first stage, at the end of second stage, it reaches maximum. In third stage, the country stops borrowing aboard to cover interest payments and begins to reduce external debt. A very poor country can take long-time to move through the stage first and second, if the return on capital obtained by foreign borrowing is low relative to the interest rate, it may never reach stage third.

Bastable (1964) argued "A nation can't any more than an individual keep adding continually to its liabilities without at least coming to end of its resources. Public debt is no longer a cake eating feast but a careful and efficient brain to handle the management of the public debt".

The classical economist **Lerner** (1955) viewed " The internal debt may not have direct money burden in a community as a whole, since the payment of interest to meet the burden involved simply transfer the purchasing power from are group of person to another to the extend the creditors and tax payers are the same. There may not be any 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 among different section of the community may place. Generally the government bonds and securities holder 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 direct real burden of public debt because public securities are held mainly by the rich classes and progressive taxation is like to be as sharply progressives to counter balance the inequalities in the distribution of income.

E.D. Damar (1944), defines public debt as the ratio of the total national income. He lays down the condition under which the burden would be increase or decrease over time. Let,

$T= Di$

And, $t = T / Y$

Where,

D = amount of debt outstanding at the beginning of a 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.

$t = T / Y$

$= I. D / Y$

From the above equation it follows that the tax rate is 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 above given 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. Like wise, the burden of debt (t) and rate of growth of income (G) has negative relationship.

The United Nation conference on trade and development review in" multilateral debt of the least developed countries since the crises of early 1980s". This paper has discussed on problem of multilateral debt as sustainability, liquidity and accumulation of large scale arrears. The paper has evaluated recent scheme to provide debt relief and suggested possible measures to strengthen and improve existing schemes as well as present other innovative abstains. The papers focused mainly on the least develop countries (LDCs).

University of Munster carried out a congress on Latin America and Europe in dialogue international indebtedness being parts of the Workshop on Economics from 27 September to 2 October 1987. It was focus on origins, consequences and development of debt crises, problems of managing debt, deficiencies of world monetary system and the inter- relationship between and indebtedness growth.

To examine the debt serving capacity in relative export earning gross national product and government revenue, Clein and Verbeek (1995) used the following equation.

$d_{(t)} = I_{(t)} + [I m_{(t)} + X_{(t)}] D_{t-1}$

Where,

X_t = export sharing production goods and services that are sold to non residents.

$I\,M_{(t)}$ = sharing the utilization of income for imported goods and services (except for

Interest payment on foreign debt)

I_t = the average interest rate changed on external debt in period (t)

$D\,t_{-1}$ = the size of the stock of the debt of previous year.

The above equation focus on the factors that makes debt grow faster or slower that larger or smaller values of [$I_{(t)}$]. First [$D_{(t)}$] will be high if the average interest [$I_{(t)}$] is higher or if the non interest current account deficit [$I\,m_{(t)} - X_{(t)}$] is high relative to the stock of debt of the previous year[$D_{(t-1)}$]

Rolf Schinke examined the debt equating swaps to improve the credit worthiness not the present debtor countries and there by to create more favorable climate for investment particular in case of Chile.

Willem H Buiter observes, "The government borrows only to finance public sector capital formation cannot be easily rationalized in terms of generally accepted economic principles. At worst it could become a straight jacket on the fiscal and financial strategy. IT also risks including a misplaced sense of complacency about the accumulation of public investment related to public debt. Debt must be serviced through future higher current revenues or lower public spending, regardless of what motivated its issuance."

Herber observes that the orthodox debt position regarding intergeneration transfers has essentially with stood the attacks made on it by so called 'burden mongers'. The descending arguments essentially consist of special cases involving specialized assumption and definitions. Buchman by stressing freedom of choice for individual tends to define burden as an individual burden instead of an aggregate societal burden. The Bowen–Davis Kop and Musgrave approaches involved a special somewhat unrealistic assumptions regarding in heritance. Modigliani under emphasizes the importance of secondary effects and their ability to influence debt burden.

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 and producing capital equipment. Generally, government borrows for the creation of infrastructures in the economy since it reqi9res huge investment initially which cannot be met through only revenue collection. The aim of the government borrowing policy would be to help in strengthening 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 though the device of public borrowing in order to meet financial need of its development program.

"The Least Developed Countries Report " published on 1999 " 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 efforts 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 heavy indebted poor countries initiative. The decline in commodity prices _ prices which are projected to remain depressed over the next several years – is likely to dampen export prospects for many LDCs thus further weakening their debt- serving capacity".

Milhani observed, "Public debt is considered when the government floats loans and borrows from the public. Government needs to borrow when current revenue is short of public expenditure".

Mulma (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 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 appositive development: creditors were able to identify new investment out less and deters could acquire funds need for development purposes.”

He explained that an external debt crisis was due to;

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

2.6 Literature Review in Nepalese Context

In literature review on public debt in Nepalese context , some students of master level has written thesis on public debt and some writers have preceded to given their dissertation and article on it. Some of these have focused its problems and prospects of debt market growth, where as others have in its structure, important, impact in inflation, employment and national solvency e.t.c. These thesis papers and articles also briefly described the role, need and scope of public debt in micro economy, however, the student of economics and to make thesis on such like context but it emphasis the Nepalese system and practice on debt of Nepal.

2.6.1 Review on Thesis

Purushottam Acharya (1968) was submitted the field report to Tribhuvan University, at the first time about the subject matter. He has presented the case study titled "*A Case Study on Public Debt in NEPAL*" including the features problems, and pattern of public debt. His studies include different kinds of debts, feature of deferent bonds and redemption of bonds, pattern ownership of bonds and aims and effects of public des in economy. He described that the issue of public debt activates the money into productive purpose for the economic development which are lying idle with the people. He reached on conclusion "public debt is most popular these days because of the payment of debt on maturity can be adjusted through the issue of fresh public debt. But the fat is that habit of purchasing bonds issued by government should be developed among the people so that no difficulty may be faced in getting the bonds (securities) purchased by the people".

Mahesh Raj Joshi (1982) has submitted a dissertation paper titled "*Structure of Public Debt in Nepal*". In his thesis, he has pictured the poor economic performance of nation, which is due to nation's natural topography and human behavioral limitations. He concludes the internal borrowing is the mot essential to develop the money and capital market in the nation and external borrowing is mainly for the rapid economic development. He described the external debt as supplementary tool for the resource gap in the country's budgetary expenditure.

R. D. Singh (1983) in a report paper entitled "*External Borrowing and Its Impacts on Economy"* describes the structure of internal pubic debt and impact on the economy. He observes and concludes that the nature of internal borrowing is quite inflationary because the proportion of unreal borrowing in total internal borrowing is greater than real borrowing. So the impacts towards rapid increase in money supply resulting in an increase demand for goods and services, which lead to rapid increase in import. So the ultimate burden falls on balance of payments situation.

Kamal Prasad Upadhya (1985) prepared dissertation paper entitled "*External Debt and Debt Serving in Nepal"*. His analysis, indebtedness of the country with increasing external borrowing and other hand analysis the determinant of external borrowing in Nepal.

Birju Prasad Sharma (1988) in his dissertation paper titled "*Public Debt in Nepal"* has dealt the positive role of public borrowing for the sound economic growth and prosperity on a hand and on other hand he has alarmed the state not to disburse the debt unproductively. He has cogitated forever increasing public debt because only richer section of the society gets double benefits from the public debt. According to him one benefit is in the form of the interest on the debt and other benefit from the development itself." But if there is any increase in small saving ownership of debt is defused and the problem of inequality in the distribution of wealth and income is minimized."

Over leading by creditors commercial banks **Keshar Bahadur Kuwar** (2000) M.A. thesis entitled "*Government Borrowing: System and Practice in Nepal*" observed government borrowing is the financial obligation of the state for which the government is committed to pay its interest and the principle with stipulated time of period. He further add borrowing abroad gives a command over more goods and services than its currently provided but entails of further real cost and transfer problems. Whether such borrowing should be undertaken is essentially a benefit cost question that can be analyzed by reference to the value of debt finance expenditures and the country's debt service capacity. In practice however much more is unplanned and is promoted by attractive offers of credits or by emergencies, miscalculation or weak fiscal policies.

Shree Bhadra Khanal (2000) has prepared a thesis on "*Public Debt in Nepal*". He analyzed the trend and structure of public debt in Nepal, the role of public financing development and burden of public debt in Nepal. He described that the external borrowing is increasing more rapidly than internal borrowing in developing countries, like Nepal. Increasing trend in of public borrowing, debt serving obligation are also increasing rapidly but debt serving capacity of the country has not been increased with the same pace. He again revealed that internal debt has played a significant role the financials recourses. For development expenditure as well as in the growth of money and capital market and it facilitates 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.

Daya Ram Sharma (2001) in his M. B. S. thesis entitled "*Public Debt: System and Practice in Nepal*" concluded that government borrowing has been increased unlikely and financed mostly on the unproductive sector and hence government always lacks the resources, then borrows the new loan to pay the previous ones. Reforming the tax and customs policy, reviewing the managerial and bureaucratic system, reducing the ludicrous expenses and principally making the tax and customs administration fair, active and agile , government may not lack the financial resource henceforth forever.

He further observed that the magnitude of public debt and its interest is mounting rapidly, but the addressing capacity of redemption the debt is not increasing in the same pace. The average annual growth rate of public debt is 12.90 percent. By hence we come to know that we are going to be entrapped in the debt net and we shall not escape ourselves from the terrific ineptness, if no effective programmed is set and carried out for debt financing economy.

Sandip M. Bhattarai (2003), in his M.B.S. thesis entitled "*Problems and Prospects of Debt Market Growth in Nepal*" has concluded that there are numbers of problems in due to which the debt securities market of Nepal is not growing smoothly. Mainly the problems are the lack of public awareness, limited supply of quality bonds, investors increasing attraction towards common stocks and also towards the banking sector's securities, difficult process of issuing debenture, insufficiency of legal provisions, infrastructure of capital market, and narrow area of government securities market.

2.6.2 Review on Articles

Kesav Prasad Acharya (1988) in his article entitled "*Burden of Public Debt in Nepal"* has analyzed the debt situation in Nepal. He also pointed out the various factors that cause leading to an excessive internal and external debt burden. In which domestic factors are;

a) Inappropriate or expansive fiscal policy
b) Very low tax effort
c) Poor maturity mix debt burden
d) Over- regulated prices that dampen incentives to export oriented production resulting in falling exports and revenue, and increased import.

   External factors to dead excessive debt burden are;

a) Adverse external conditions such as deterioration in the terms of trade (e.g. Oil shocks)
b) Inadequacies in external debt management such as poor maturity mix and exchange rate misalignment.

Urimila Adikari (1996) in her article "*Foreign Debt Serving ,A Case Study*" tells us about the foreign debt serving problems in Nepal. She further analyzed about substantial increase in foreign debt between 1974/75 to 1993/94. She is in favor of effective implementation of debt. She supports Liberalization policy in all areas of investment which can create capacity of foreign exchange earning by reducing burden of debt serving year by year.

Sivakoti (1997) in his article, "*The Issuance and Payment process of Public debt in Nepal*", has analyzed government should not borrow the public debt to meet even a minor budgetary insufficiency s 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;

a) Theoretical aspects and principles of issuance of public debt.
b) Action system that has been followed by NRB to collect the debt internally
c) Issuance and payment process of short-term government securities as well as long –term securities.

Yuba Raj Khatiwada (1998) in his article "*Public Debt Management and Macro Economic Stability*" deals with monetary implication of public debt. He has found that;

a) Heavy bank borrowing by the government contributed significantly for the expansion of money supply in 1990.
b) Excess monetary expansion, which has indirectly resulted in high rate of inflation and deterioration of current account situation.
c) Public debt has crowed out recourses available for private sector investment.
d) Debt serving resulting to higher budgetary deficit which further contributes to monetary expansion
e) Public debt has high exerted upward pressure on the market rate of interest.

He further analyzes the situation is more alarming as foreign loan in the long term nature is maturing out faster rate and exchange rate of Nepalese rupee is depreciated very fast, multiplying the debt obligation as well as the debt servicing requirements. He further said that as the government falling into domestic debt trapped appears more imminent that falling into the domestic trap and as a averting the former is in the policy domain of the fiscal authorities, a serious rethinking on domestic borrowing has to be made while exercising budgetary numbers.

Rameswori Panta (1997) (the annual publication of NRB) observed in her article "*Management of Internal Debt and Economic Stability*" has viewed that the private industrialists and traders would be hesitated and discouraged if the state is also simultaneously to conduct the business and industry. It may create the unhealthy competition in between the government and private sector. She suggestively has written private sector should be emboldened by the stat formulating rules and regulations and providing them a good economic environment. She advocates ensuring the private instigation government should not interfere the liquating position existing in the market. She hence recommends the government not to borrow the capital from the public so that private investors will not lack the capital.

Bhishma Upreti (2006) has written the article on Public Newsletter titled "*A Theoretical Discussion on Crowding out Effect of domestic Debt*" that the concept of domestic debt emerged from the concept of deficit financing. A monetarist stated, resources are transferred from one sector to another within the country in domestic debt phenomenon. Indeed, current purchasing power is transferred form the hand of individuals or institutions to the government in process of domestic debt. But, it does not imply any additional resources in the economy. Likewise, in the repayment, internal debt servicing does not act for any reduction in the real resources with in the country.

Nara B. Thapa (2007) has written the article "*Some Issues in Domestic Debt Management in Nepal*" in Public Debt Newsletter about some issues of public debt management. The first issue is the cooperation from the fiscal side in controlling inflation. This is important because democratic society has a lower lever of tolerance to inflation. It has also political implication. Therefore monetary policy objective should override fiscal consideration in domestic debt management. The second issue is the transparency and predictability in the management of domestic debt. This issue is important to align the market behavior as per the policy intentions. Designing the issue calendar for domestic debt mobilization once it is budgeted and passed by the parliament and strictly following that calendar is an important fiscal support the efficient conduct of monetary policy. If the budgeted domestic borrowing is taken as authorization but not the commitment to domestic debt mobilization, then that creates uncertainty and unpredictable behavior on than part of the government. In that situation, the market may not be behaving responsibility and at times behave strategically.

Bibhu P. Aryal (2007) has written the article" *The Role of Foreign Aid in Economic Development of Nepal: An Econometric Analysis*" in 52nd anniversary newspaper that foreign aid is significantly playing a positive role to increase the GDP per capita in Nepal. Such a positive role of aid in GDP per capita growth leads to the conclusion that increased foreign aid help to increase the rate of GDP per capita. Therefore foreign aids needs to increase in the country. A big amount of aid does not necessarily mean a greater number of foreign aid agreements. Aid agreement could be less in numbers but disbursement has to be higher. He further writes that foreign aid is that recipient has to repay interest as well as principle If the aid is received as loan. More loans are always a big responsibility to recipient country because exchange rate could make the country to repay the loan and its interest in a higher amount in the future.

According to the economic survey report fiscal year 2006/07 issued by Ministry of finance, in fiscal year 2004/05, outstanding foreign loan totaled Rs. 219 billion 641.9 million. In the following year, outstanding foreign loam t increased by 6.5 percent and amounted to Rs.233 billion 968.6 million and internal outstanding loan totaled to Rs.87 billion 564.2 million by mid-July

2005. it increased by 8.16 million to the total of Rs.94 billion 710.6 million in mid-July 2006. It shows the public debt of Nepal is continuously increasing trends. The share of external debt is more than seventy percent of the total outstanding debt. Nepal is heavily indebted by external borrowing.

2.7 Research Gap

Research means to investigate or to search again about a phenomenon under study. Very few researchers have been made on topic "Public debt" with its structure, trends and burden. Most of the researcher was conducted regarding system and procedure, problem and prospects of debt growth market etc. Some researcher focus only in internal debt burden and some are for external which can't be covered the all area of public debt and its burden.

This research covers the trends, structure and burden of, both internal and external public debt, where there is research gap since last few years. This research has tried to cover this gap with forecasting its situation for more two years in complete figure of trends, structure and burden. So this research covers all the area of trends structure and burden, and attempt to fulfill the research gap remained in previous year.

CHAPTER - III
RESEARCH METHODOLOGY

3.1 Overview

Research Methodology is to be described before presenting, analyzing and interpreting data. So, first of all we have to know about research. Research means to search or study a phenomenon. The word research is also completed by ‘re’ and ‘search’. Where‘re’ means again and again and ‘search’ means to investigate or find. The process of investigation involves a series of activities a like gathering, analyzing, and interpreting the data with the purpose of findings answers to the problem. Generally, research is an effort to search new fact, knowledge and principle in scientific manner.

Research methodology is also known as a systematic way to solve the research problem. It describes the process and methods applied in the entire aspects of the study. Research methodology also refers to various sequential steps to adopted by a researcher in studying a problem with certain objectives. researchers should know which of the technique 0r methods are relevant and which are not, and what would they mean and indicate and why.

3.2. Research Design

Research design is the strategy for conducting research work, which describes the general frame work or plan of the study which guides for collection, and analysis of identifying data.lt also provides the basis about what the researcher wants to know and what has to be dealt with in order to obtain required information.

This research design work is designed to analyze the structure of public debt and its effect on output. For this purpose, we have used various statistical and econometric variables and tools. The statistical and econometric variables are analyzed by using ordinary least square method.

3.3 Size of Sample

In order to show the trend and structure of public borrowing and its effect on total GDP, 17 years data (1989/90 to 2005/06) have been taken into account. This is because we are interested to examine the relationship between public debt and GDP.

3.4 Sources of Data

Normally, data are collected by using two sources, primary and secondary. Since, the thesis requirement can be obtained from secondary types, only secondary types are used. The secondary sources of data are those that have been used from published sources or used by someone previously. The annual reports of the economic survey of various years, published by the ministry of finance are the major sources of data for the study. Beside this, the annual report s of the subjected bank, the following sources of data have been used in the course of the study:-

- NRB reports and others quarterly bulletins
- Annual report Of CBS and publications about national indicators,
- Publication of planning commission etc
- Various discussion papers and reports national, international agencies about debt
- Various publications dealing in the subject matter of the study.
- Various articles published in the Newspapers.

Formal and informal talks to the concerned authorities were helpful to obtain the additional information of the related problem.

3.5 Data Collections Techniques

Data collection also knows the field work, which is the implementation of research design. This study is primarily based on secondary data and information obtained from various sources such as Budget Speeches, Economic Survey(1989/90 to 2005/06) , Publications of Ministry of Finance, various publications of Nepal Rastra Bank, NRB economic report and others quarterly publications, annual report CBS and publications about national indicators, publication of planning commission etc and other various discussion papers and reports national, international agencies about debt which have been collected by the personal visit of concern departments.. As far as possible, recent data have been included in the study. A systematic process directed towards investigating problems, practices and the view on existing issues in the beauty of the good researcher. So in this study, facts, figures, knowledge and opinions have been collected.

3.6 Data Analysis Tools

Presentation and Analysis of the collected data is the core of the research work. In order to support the study, different statistical and mathematical calculation such as percentage, ratio, arithmetic mean, along the diagram has been taken into account. It is therefore, evident that the subjective pattern of analysis guided by theoretical tool and statistical as well as mathematical tool has collectively been exercised to support the different component of the study raised through the major issues to public debt in Nepal.

3.6.1 Qualitative Analysis

This study is basically based on certain tools for qualitative analysis, such as percentage distribution, average annual growth rate etc. Similarly the ratio to assess burden of debt servicing problem have been estimated which are following.

- Ratio of Public Debt to GDP $= \dfrac{\text{Public Debta}}{\text{GPD}}$
- Ratio of Internal Public Debt to Fiscal Deficit = $\dfrac{\text{Internal Public Debt}}{\text{Fiscal Deficit}}$

- Ratio of External Public Debt to Fiscal Deficit = $\frac{\text{External Public Debt}}{\text{Fiscal Deficit}}$
- Ratio of Annual Total Debt Servicing to GPD = $\frac{\text{Total Debt Servicing}}{\text{GPD}}$
- Ratio of Total Debt Services to Total Revenue = $\frac{\text{Total Debt Services}}{\text{Total Revenue}}$
- Ratio of Total Debt Servicing to Total Expenditure = $\frac{\text{Total Servicing}}{\text{Total Exp.}}$
- Ratio of Revenue Deficit to GDP = $\frac{\text{Revenue Deficit}}{\text{GDP}}$
- Ratio of Fiscal Deficit to GDP = $\frac{\text{Fiscal Deficit}}{\text{GDP}}$
- Ratio of Resource Gap to GDP = $\frac{\text{Resource Gap}}{\text{GDP}}$
- Ratio of External Debt Servicing to Export Earning = $\frac{\text{External Debt Servicing}}{\text{Export Earning}}$
- Share of Principal Servicing to Total Debt = $\frac{\text{Principle Servicing}}{\text{Total Debt}}$
- Share of Interest Servicing to Total Debt = $\frac{\text{Interest Servicing}}{\text{Total Debt}}$
- Share of Internal Borrowing to Total Debt = $\frac{\text{Internal Borrowing}}{\text{Total Debt}}$
- Share of External Borrowing to Total Debt = $\frac{\text{External Borrowing}}{\text{Total Debt}}$
- Net Outstanding Debt to GDP = $\frac{\text{Net Outstanding}}{\text{GDP}}$
- Ratio of Import and GDP = $\frac{\text{Import}}{\text{GDP}}$
- Ratio of Export and GDP = $\frac{\text{Export}}{\text{GDP}}$

- Ratio of External Debt Servicing and Export Earning = $\frac{\text{External Debt Servicing}}{\text{Export}}$
- Ratio of External Debt Servicing and GDP = $\frac{\text{External Debt Servicing}}{\text{GDP}}$
- Ratio of Import Payments and Outstanding External Debt = $\frac{\text{Import Payment}}{\text{Outstanding Exe Debt}}$
- Saving and Investment Gap = Saving – Investment
- Share of Debt Servicing in Total Revenue, Regular Expenditure and GDP

3.6.2 Qualitative Analysis

3.6.2.1 Means (Average)

A mean is the average value or the sum of all the observations divided by the no of observations and it is denoted and given by formula.

The arithmetic average mean$(\bar{x})$ = $\frac{x_1+x_2+\cdots+x_n}{n} = \frac{1}{n}\sum_{i=1}^{n} x_i$

Where,

x = no. of variables

n =Total no of years

3.6.2.2 Percentage

Different values are converted in terms of hundred means in percentage.

Increase or Decrease Percentage= $\frac{\text{Increase or Decrease Number}}{\text{Previous Number}} \times 100$

3.6.2.3 Regression Equation

Regression analysis is also the techniques of studying how the variances are one series are related to variations in other series. It shows that how the variable are related. Thus, it is the estimation of unknown values or prediction of one variable from known values of other variables. So it is the mathematical measure of the average relationship between two or more variables in terms of the original units of the data.

Simple Regression Equation

The regression analysis confined to the study of only two variables at a time is called simple regression. In this regression line are taken as statistical tool:

Regression Equation of Y on X

Let the line of regression be $y = a+bx+cx^2$.

By using method of least square, the normal equations are:

$\sum y = na + b\sum x + c\sum x^2$

$\sum xy = a\sum x + b\sum x^2 + c\sum x^3$

$\sum x^2 y = a\sum x^2 + b\sum x^3 + c\sum x^4$

Where;

.X = given year (From 1989/90 to 2005/06) i.e. 1 to 17.

.y = Estimated variables

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

In this chapter, data presentation and analysis is the major part of the study. In this part the analytical exploration and manipulation of data has been attempted with the frame of the research methodology and analyzed data are presented with appropriate form.

4.1.1 Trends and Structure of Public Debt in Nepal

Nepal has been borrowing new fresh loan mainly to balance her deficit budget however other causes may exists with it. It is applied for the maintenance of the balance between the expenditure and revenue. It is also applied for financing economic development since under developed countries always face the problems of funds which is reflected in large extents as ever increasing financial resource gap in the government budgetary.

While talking about fiscal policy of Nepal, Nepal has suffering the huge fiscal and budget deficit since many years. Government expenditure is increasing rapidly but revenue is not increasing in the same pace. This indicates, Nepal is facing the problem of ever increasing resource gap year by year. To fulfill this resource gap, Nepal had been borrowing external and internal loan. But Nepal's debt servicing capacity has not increasing in the expected pace. So, burden of public debt has been increasing and became a burning issue of Nepal.

For this reason, we have studied about the topic of Trend and Structure of Public Debt in Nepal to analysis and show the situation of public debt in Nepal and propose some recommendations.

4.1.2 Government Borrowing and Annual Growth Rate

After the restoration of multiparty system, the scope of government has been increasing and investing more from 1990, so the government expenditure is increasing. The reliance on taxation is not possible in view of the large amount financial resources required for government expenditure due to the administration is not fair, and transparent. So Nepal is facing large and growing financial resource gap in the government budgetary. In this context, the government borrowing both external and internal needs for supplements this resource gap. The government has to borrow large amount of loans to meet the fiscal deficit, which is shown on Table 4.1.

Table 4.1

Government Borrowing and annual Growth Rate

Rs. In Million

Fiscal Year	Total Debt(1)	External Debt (2)	Internal Debt (3)	(2) as % of (1)	(3) as % of (1)
1989/90	8109.6	5959.4	2150.0	73.5	26.5
1990/91	10809.4	6256.7	4552.7	57.9	42.1
1991/92	8895.7	6816.9	2078.8	76.6	23.4
1992/93	8540.9	6920.9	1620.0	81.0	19.0
1993/94	10983.6	9163.6	1820.0	83.4	16.6
1994/95	9212.3	7312.3	1900.0	79.4	20.6
1995/96	11663.9	9463.9	2200.0	81.1	18.9
1996/97	12043.6	9043.6	3000.0	75.0	25.0
1997/98	14454.5	11054.4	3400.0	76.5	23.5
1998/99	16562.4	11852.4	4710.0	71.6	28.4
1999/00	17312.2	11812.2	5500.0	68.2	31.8
2000/01	19044.0	12044.0	7000.0	63.2	36.8
2001/02	15698.7	7698.7	8000.0	49.0	51.0
2002/03	13426.4	4546.4	8880.0	33.9	66.1
2003/04	13236.8	7629.0	5607.8	57.6	42.4
2004/05	18204.2	9266.1	8938.1	50	49.09
2005/06	20048.5	8214.3	11834.2	40.98	59.03
Average annual growth rate	7.2	6.29	17.31	58.6	21.91

Table 4.1 shows that government borrowing and annual growth rate of external and internal debt to total debt. As table shows that trends of total government borrowing is fluctuating. Total government borrowing has increased from Rs.8109.6 million in 1989/90 to Rs.20048.5 million in 2006/07.

In 1989/90, Total government borrowing is Rs.8190.6 million and has increased up to Rs.10809.4 in 1990/91 and again decreased in 1993/94 and the borrowing was Rs.9212.3 million. But from 1995/96, total government borrowing has increased up to 2000/01 from Rs.11663.9 to Rs.19044.0. After that it has decreased up to 2003/04 which has Rs.13236.8 million. Again increased Rs.20048.5 million in 2005/06 and average annual growth is 7.2 %.

Similarly external borrowing is also increased from Rs.5959.6 million to Rs.9163.6 from 1989/90 to 1993/94. Again it was decreased in 1994/95 which has Rs.7312.3 million. Such a way, increasing and decreasing has been continuous. In 1996, it was Rs.9043.6 and increased up to Rs.12044 million in 2000/01. It has decreased in 2002/03 which has Rs.4546.4. Again it has increased up to Rs. 9366.1in 2004/05 and decreased in2005/06 which has Rs.8214.3.

This table shows that internal borrowing has Rs.2150 in 1989/90. But it has decreased Rs.4552.7 in 1990/91. Again it has decreased in 1992/93 which has Rs.1620.7 after that increasing trend has continuous up to 2002/03 and internal borrowing has Rs.8880.0 million in 2002/03. It has decreased to Rs.5607.8 million in 2003/04 .After that, internal borrowing has increased up to the end of the study which has Rs.11834.2 with average annual growth rate 17.31.

Table 4.1 also indicates that the external borrowing increased more than internal borrowing from 1989/90 to 2000/01, but in the year 2001/02, 2002/03 and 2005/06, the proportion of internal debt was greater than external debt out of total debt. It seems that the trends of external debt were decreasing and internal debt still increasing. But in 2003/04 it was again change, it means that trends of internal and external debt has been fluctuating.

Thus these trend clearly shows that the government borrowing is increasing in both absolute and relative terms and also shows that the increasing reliance on external borrowing and internal borrowing.

Figure 4.1

Trend of Total, External, Internal Debt

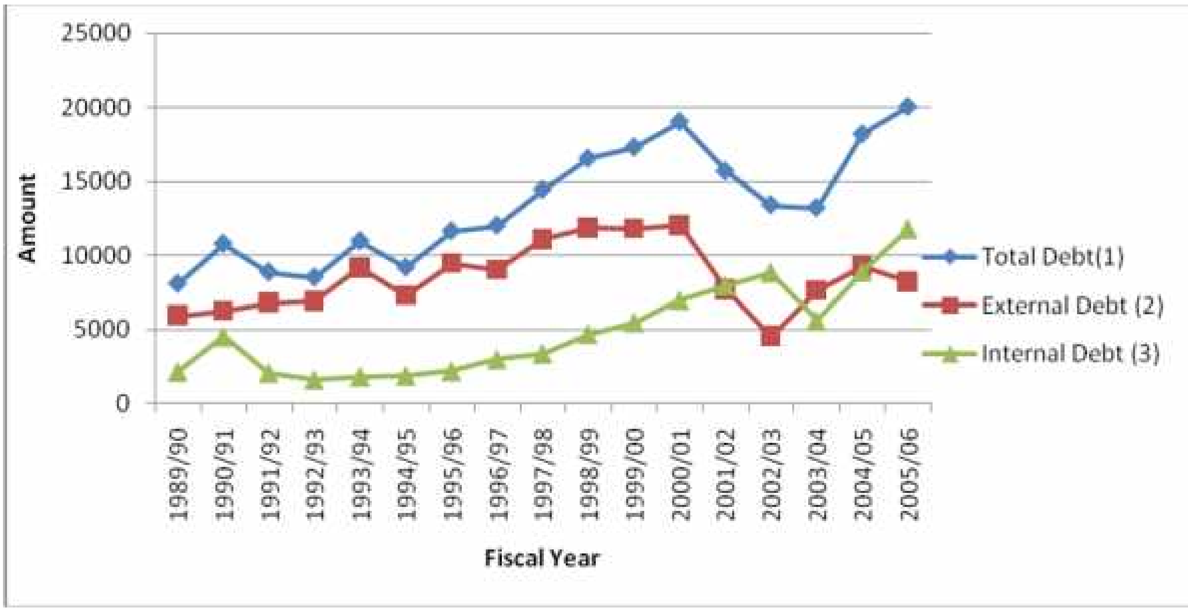


Figure 4.2

Trend of Total Debt with Forecasting of Two More Years

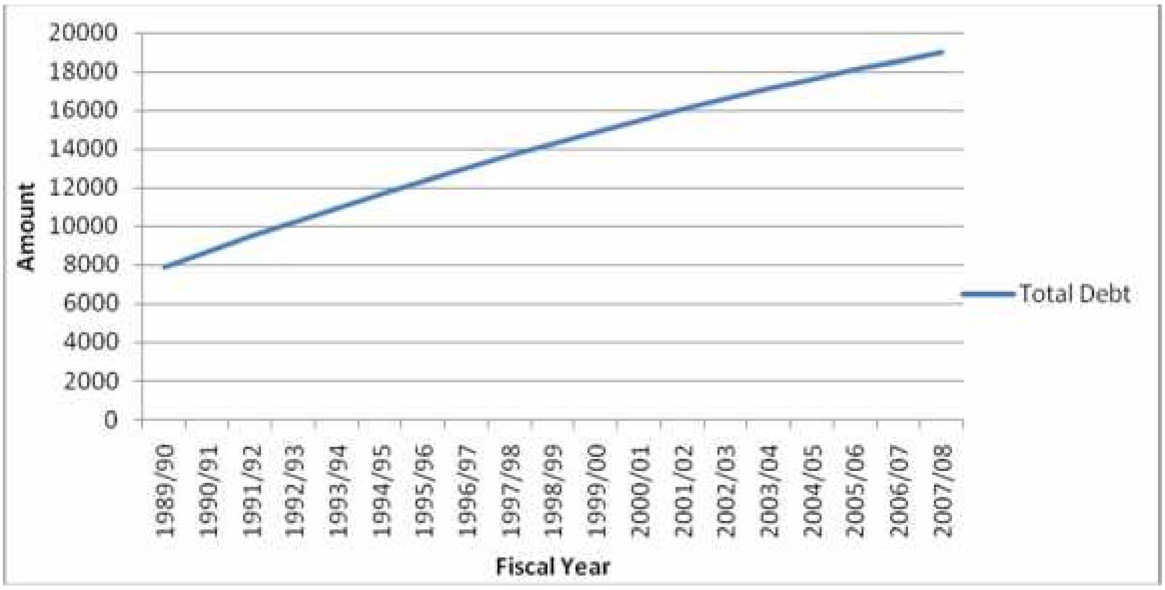


Fig 4.2 Shows that the trend of Total Debt is incresing at constant rate.

4.1.3 Financing of Fiscal Deficit

Public debt has been the main source for financing fiscal deficit in Nepalese fiscal system. Although for financing of fiscal deficit both internal and external sources of borrowing have been adopted in any underdeveloped economy. The total public debt has been increasing rapidly since the restoration of multiparty system for meeting the requirement of fiscal deficit.

Table 4.2

Internal and External Debt as Percent of Fiscal Deficit

Rs. In Million

Fiscal Year	Fiscal Deficit (1)	Total Debt	Internal Debt (2)	External Debt (3)	(2) as % of(l)	(3) as %of(l)
1989/90	8466.4	8109.6	2150.0	5959.6	25.6	70.9
1990/91	10655.1	10809.4	4552.7	6256.7	42.7	58.7
1991/92	11261.7	8895.7	2078.8	6816.9	18.5	60.5
1992/93	11956.0	8540.0	1620.0	6920.9	13.5	57.9
1993/94J	11623.0	10983.0	1820.0	9163.6	15.7	78.8
1994/95	10547.7	9212.3	1900.0	7312.3	18.1	69.6
1995/96	13824.2	11663.9	2200.0	9463.9	15.9	68.5
1996/97	14361.9	12043.6	3000.0	9043.6	20.7	63.0
1997/98	17777.8	14454.5	3400.0	11054.5	19.1	62.2
1998/99	17991.4	16562.4	4710.0	11852.4	26.1	65.9
1999/00	17667.1	17312.2	5500.0	11812.2	31.1	66.9
2000/01	24187.8	19044.0	7000.0	12044.0	28.9	49.8
2001/02	22940.6	15698.7	8000.0	7698.7	34.9	33.6
2002/03	16437.2	13426.4	8880.0	4546.4	54.0	27.7
2003/04	15828.2	13236.8	5607.8	7629.0	35.4	48.2
2004/05	18046.5	18204.2	8938.1	9266.1	49.53	51.35
2005/06	24779.6	20048.5	11834.2	8214.3	47.76	33.15
Average annual growth rate	8.35	7.2	17.31	5.26	25.7	50.17

Table 4.2 indicates the increasing trend of public debt from both internal and external sources, which was Rs. 8109.6 million and has increased to Rs. 20048.5 million under the period of study. Its average annual rate of growth over the review period is 7.2 percent. The table shows that the increasing trend of public debt in which the increasing trend of external debt is so rapidly then internal debt till 2000/01. But total debt was decreased from 2000/01 due to the decreasing tendency of external debt which was Rs. 12044.0.in 2000/01 has to decrease to Rs. 8214.3 in 2006/07.

This table also shows that the percentage share of internal and external debt to fiscal deficit. In which the contribution of both internal and external debt to their fiscal deficit has been fluctuation. The contribution of internal debt to fiscal deficit was 25.6 percent in 1989/90 whereas external debt was 70.9 percent. But the share of internal is 47.76 percent in 2005/06 which shows increasing contribution and external is 33.15 percent, which shows the decreasing contribution to their fiscal deficit.

The absolute terms of above table shows our growing reliance on external loan for meeting the ever-increasing fiscal deficit. This absolute term also show that during the last 17 years our economic performance has not been conducive enough to reduce growing reliance on external loan. This situation has led us to think seriously about this alarming situation.

Figure 4.3

Trend of Fiscal Deficit, Total Debt, Internal Debt, External Debt

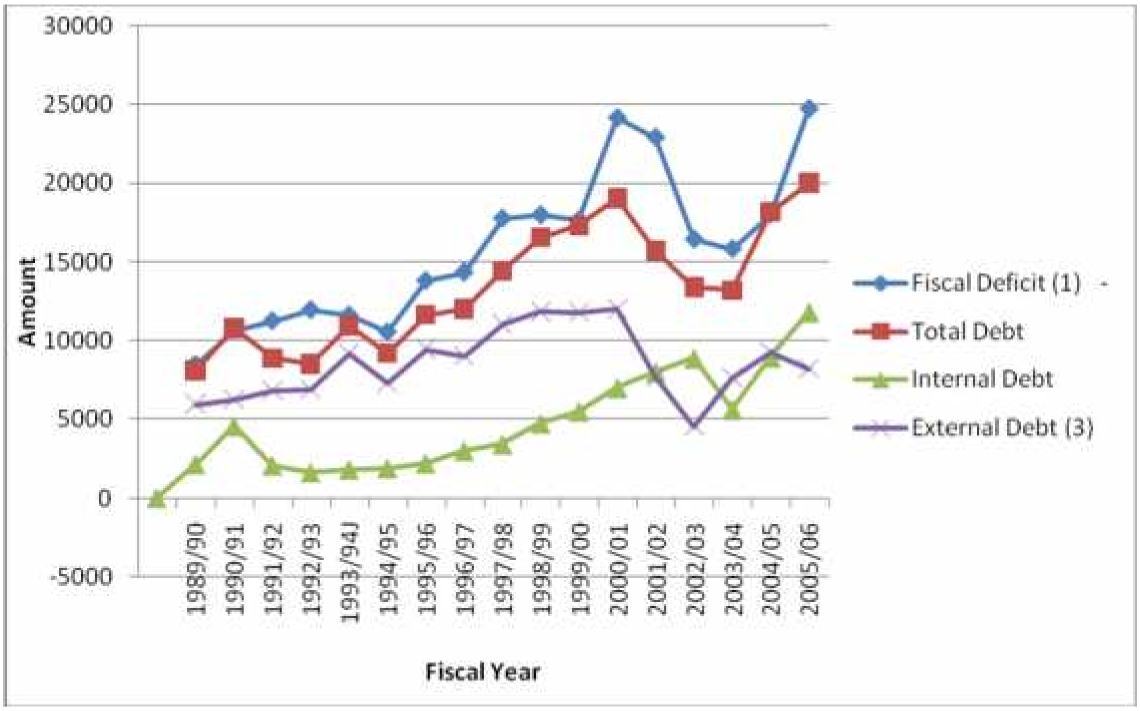


Figure 4.4
Trend of Fiscal deficit with Forecasting of Two More Years

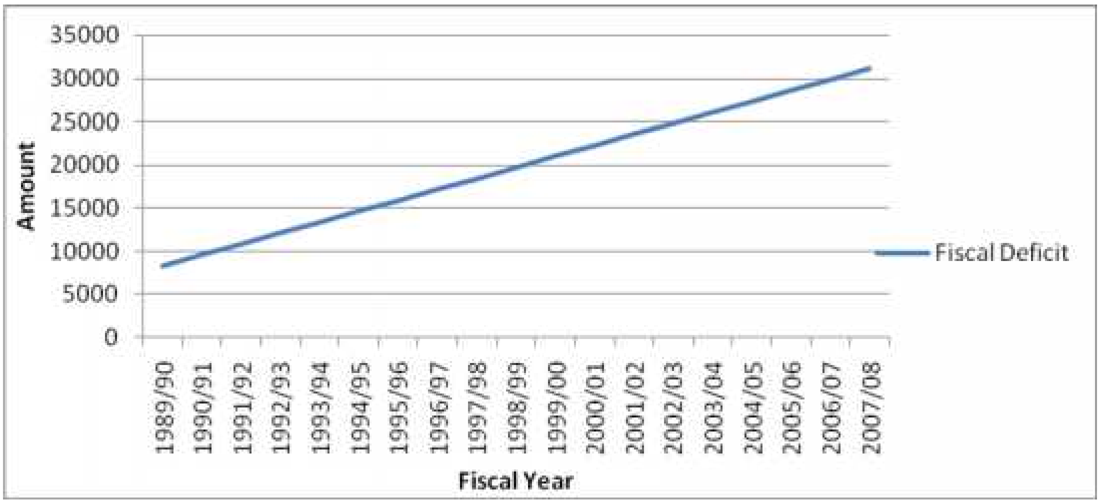


Fig.4.4 shows that the trend of fiscal deficit is increasing at constant rate.

4.1.4 Different Scenarios of Resource Gap

Table 4.3
Different Scenarios of Resource Gap

Rs. In Million

Fiscal Year	Govt. Revenue (a)	Govt. Exp. (b)	Scenario i (a-b) (Revenue Deficit)	Foreign Grants (c)	Scenario 'ii' (i-c) (Fiscal Deficit)	External Loans (d)	Scenario 'iii' (ii-d) (Domestic) R.D.)
1989/90	9287.5	19669.9	10381.8	1975.4	8406.4	5959.6	2446.8
1990/91	10729.8	34549.8	12819.9	2164.8	10655.1	6256.7	4398.4
1991/92	13512.7	26418.2	12905.5	1643.8	11261.7	6816.9	4444.8
1992/93	15148.4	30897.7	15749.3	3793.3	11956.0	6920.9	5035.1
1993/94	15580.9	33597.4	14106.6	2393.6	11623.0	9163.6	2459.4
1994/95	24605.1	39060.0	14484.8	3937.1	10547.7	7312.3	3235.2
1995/96	27893.1	46542.4	18649.3	4825.1	13824.2	9463.9	4360.3
1996/97	30373.5	50723.7	20350.2	5988.3	14361.9	9043.6	5318.3
1997/98	32937.9	56118.3	23180.4	5402.6	17777.8	11054.5	6723.3
1998/99	37251.3	59579.0	22328.0	4336.6	17991.4	11852.4	6139.0
1999/00	42893.7	66272.5	23378.7	5711.7	17667.0	18812.2	5854.8
2000/01	48893.9	79835.1	30941.5	6753.4	24188.1	12044.0	12144.1
2001/02	50445.5	80072.2	29626.7	6686.1	22940.6	7698.7	15241.9
2002/03	56229.8	84006.1	27776.3	11339.1	16437.2	4546.4	11890.8
2003/04	62331.0	89442.6	27111.6	11283.4	15828.2	7629.0	8199.2
2004/05	70122.7	110256.4	32437.7	14391.2	18046.5	9266.1	8780.4
2005/06	72282.1	110889.2	38607.1	13827.5	24779.6	8214.3	16565.3
Average annual growth rate	13.95	11.6	9.24	18.95	8.29	5.27	20.11

Table 4.3, the first scenario shows the revenue deficit, in which we can see, the increasing tendency mainly because of the increasing volume of total expenditure was Rs. 19669.3 million in 1989/90 has gone to Rs. 110889.2 million in 2005/06 where as total revenue of N/G has increased from 9287.5 million in 1989/90 to Rs. 72282.1 million in 2005/06. This shows the public expenditure has dominated to government revenue.

The growth rate of total expenditure during the period under review has been 11.6 percent per annum where as the annual growth rate of total revenue as been 13.95 percent. It shows that the growth rate of revenue is greater than expenditure but in absolute term the table show the horrible increment of revenue deficit that was increased from Rs. 10381.8 million in 1989/90 to Rs. 38607.1 million in 2005/06 and the average annual growth rate is 9.24 percent.
The second scenario shows the type of resource gap or fiscal deficit by including grants but the result even in this case is not also encouraging. Grant is the most potential source of foreign currency, which is solid instrument for government to import the capital goods and to pay the interest and principle of external debt. Foreign grants is not increasing in the desirable pace as it predicts, where Rs. 1975.1 was million in 1989/90 to Rs. 13827.5 million in 2005/06. The average annual growth rate of fiscal deficit has 8.29 percent.

During the review period, amount if bilateral and multilateral loans has increased tremendously which has created some sort if constraint in the performance of economy as a whole. Under the period of review the external loan raised only Rs. 5959.6 million in 1989/90 to Rs. 8214.3 million in 2005/06 which is caused of increasing fiscal deficit. The annual growth rate of foreign loans is only 5.27percent.

The third scenario shows that the domestic resource gap, which is determined (fiscal deficits - external loans), and these are to be financed from the government cash balance. The trend of domestic resources gap is also increasing which was Rs. 2446.8 million in 1989/90 and has gone up to Rs. 16565.3. The average annual growth rate is 20.11 percent.

The inclusion of grant in government revenue may not be appropriate because the amount depends upon political consideration of friendly countries, which may have been fluctuating character because it is determining factors of various natures. Even then the amount included here, as it does not require repayment and therefore it may be taken as good as revenue

Figure 4.5
Trend of Government Revenue, Expenditure, Revenue Deficit, Foreign Grants

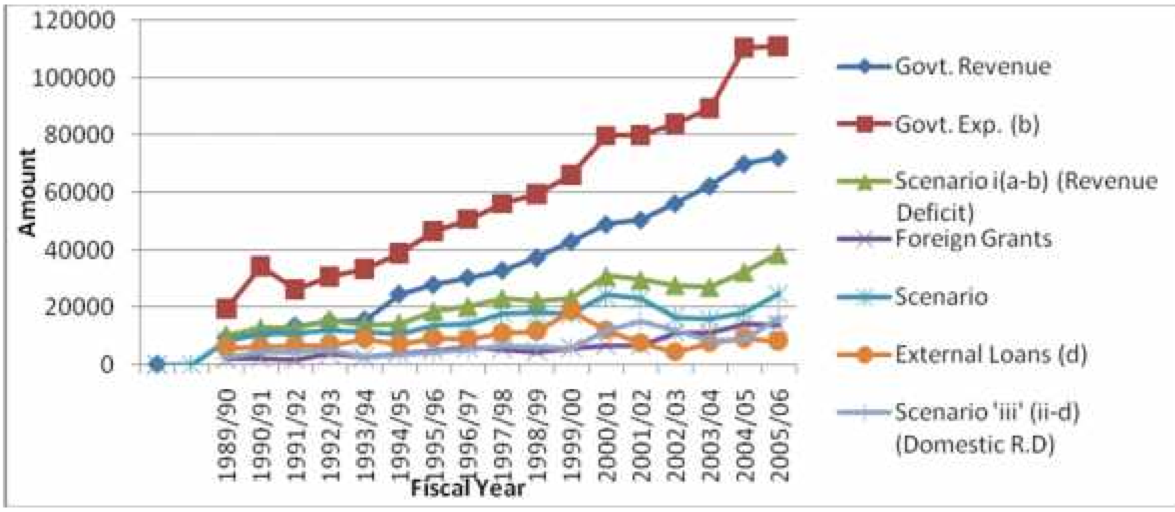


Figure 4.6
Trend of Govt. Revenue with Forecasting of Two More Years

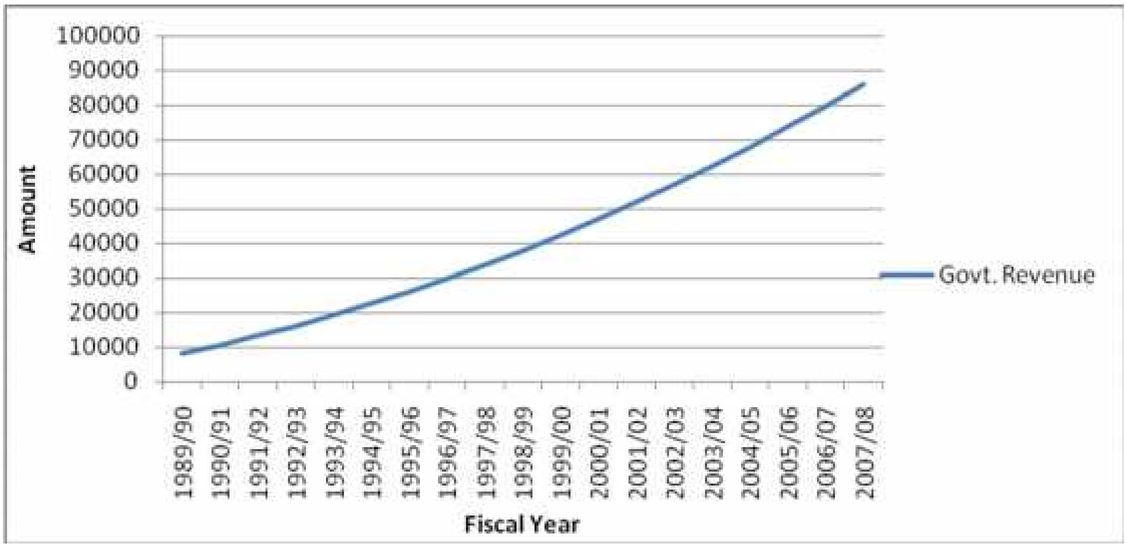


Fig 4.6 shows that the trend of Govt. Revenue is increasing at increasing rate.

Figure 4.7

Trend of Govt. Expenditure with Forecasting of Two More Years

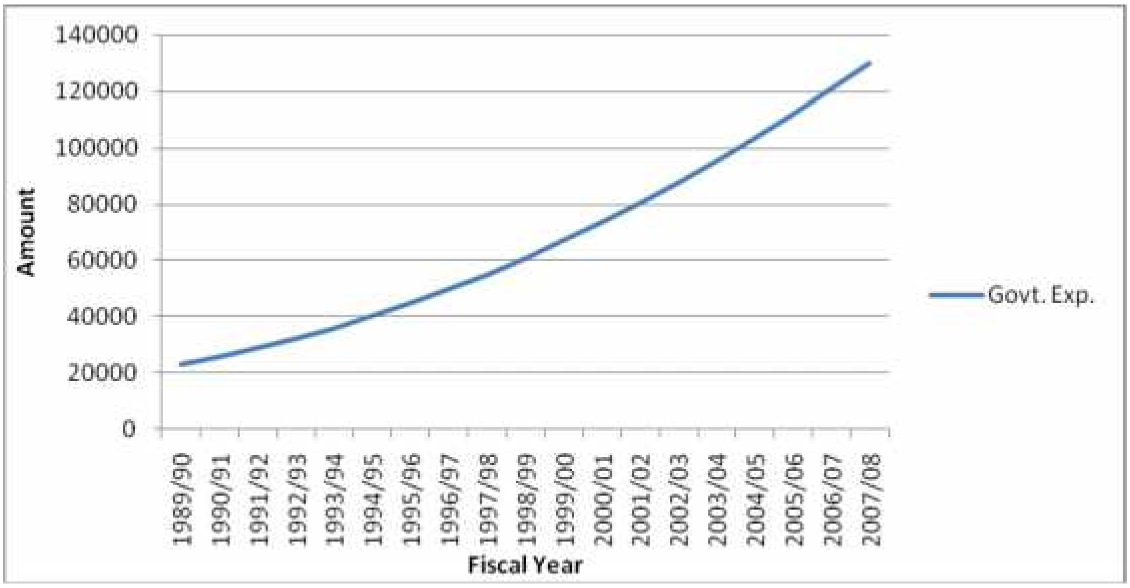


Fig. 4.7 shows that the trend of Govt. Exp. is increasing at increasing rate.

4.1.5 Outstanding of Public Debt in Nepal

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

In Nepal, public debt is used as a means of meeting the government expenditure. About 15 percent of total expenditure was fulfilled by public debt in 2005/06.

Table 4.5 shows clearly about the net outstanding public debt in Nepal, under the review of study.

Table 4.4

Outstanding of Public Deb

Rs. In Million

Fiscal Year	Total Outs. Debt (1)	External Outs. Debt (2)	Internal Outs. Debt(3)	(2) as % of(1)	(3) as % of(l)
1989/90	51474.0	36800.9	14673.1	71.5	28.5
1990/91	80361.2	59505.3	20855.9	74.0	26.0
1991/92	94158.8	70923.9	23234.9	75.3	24.7
1992/93	112876.8	87420.8	25456.1	77.3	22.7
1993/94	132598.0	101966.8	30631.2	76.9	23.1
1994/95	145058.8	113000.9	32057.8	77.9	22.1
1995/96	162286.2	128044.4	34241.9	78.9	22.1
1996/97	167977.6	132086.8	35890.9	78.6	21.4
1997/98	199614.7	161208.0	38406.7	80.8	19.2
1998/99	219135.5	169465.9	49669.6	77.3	22.7
1999/00	245048.2	190691.2	54357.0	77.9	22.1
2000/01	261594.2	200404.4	60043.7	77.0	23.0
2001/02	293746.3	220125.6	73620.7	74.5	25.1
2002/03	308078.5	223433.2	84645.3	72.5 .	27.5
2003/04	318913.0	232779.3	86133.7	73.0	27.0
2004/05	307206.1	219641.9	87564.2	71.5	28.5
2005/06	329516.2	234805.6	94710.6	71.26	28.74
Average annual growth rate	13.34	13.31	12.84	67	21.32

The above table 4.4 seems as an elaboration of debt burden of Nepal in which the total outstanding public debt of Nepal's Government has increased from Rs. 51474.0 million in 1989/90 to Rs. 329516.2 million in 2003/04 with the rate of growth of 13.32 percent per annum. This trend of net outstanding public debt shows that we must sacrifice the volume of four annual budgets to get rid of the debt, but in reality I think it is impossible to do so.

Table 4.4 shows that the outstanding external loan has increased from Rs.36800.9 million to Rs. 234805.6 million under the review period. It also shows that the average annual growth rate of outstanding external and internal debt, which are 13.31 and 12.84 percent respectively. This shows the trend of increasing outstanding of external debt is higher than internal. The average annual share of internal outstanding debt and external to total outstanding debt is 21.32 and 67 percentage respectively under the period of study. This table indicates that the share of external debt to total outstanding public debt is higher 3.47 times than internal.

So, in reality we have been indebted by foreigner to considerable extent the government therefore should take the grim attention towards the burden of external debt. Therefore, public debt is not good resources availability for the country in all sense, but it may adversely impact in the economic condition. When its volume is so large and misused by nation, we really fall into 'debt trap' whereas in fresh loans are needed for servicing the existing interest payment. So, we should pour our attention for proper use of public debt for good future of next generation through generates the sufficient resources

Figure 4.8

Trend of Total Outstanding, External Outstanding, Internal Outstanding Debt

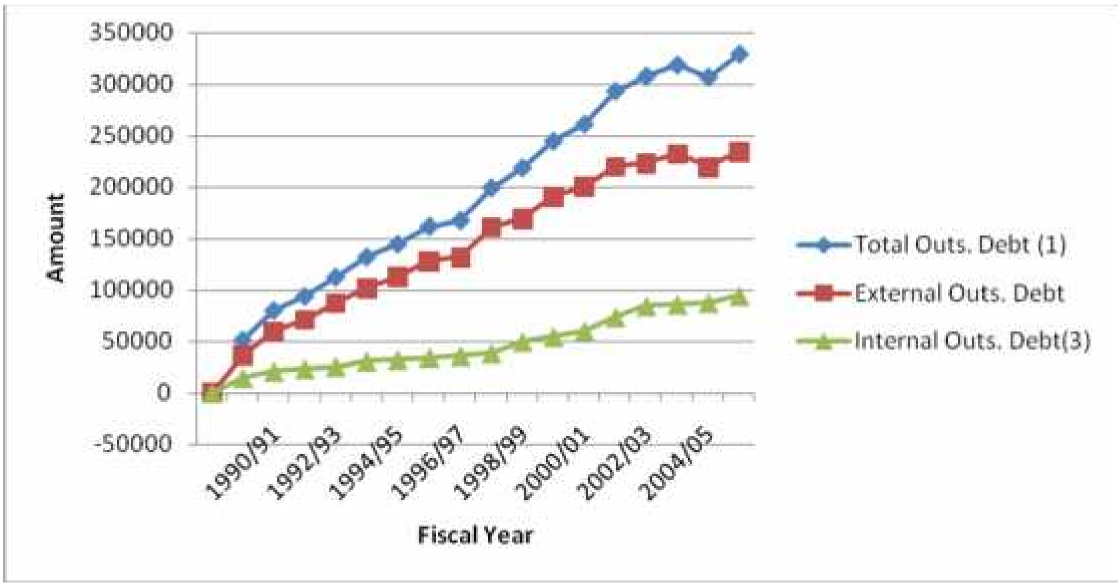

350000
300000
250000
200000
150000
100000
50000
0
-50000
Amount
1990/91
1992/93
1994/95
1996/97
1998/99
2000/01
2002/03
2004/05
Fiscal Year
Total Outs. Debt (1)
External Outs. Debt
Internal Outs. Debt(3)

Figure 4.9

Trend of Outstanding Debt with Forecasting of Two More Years

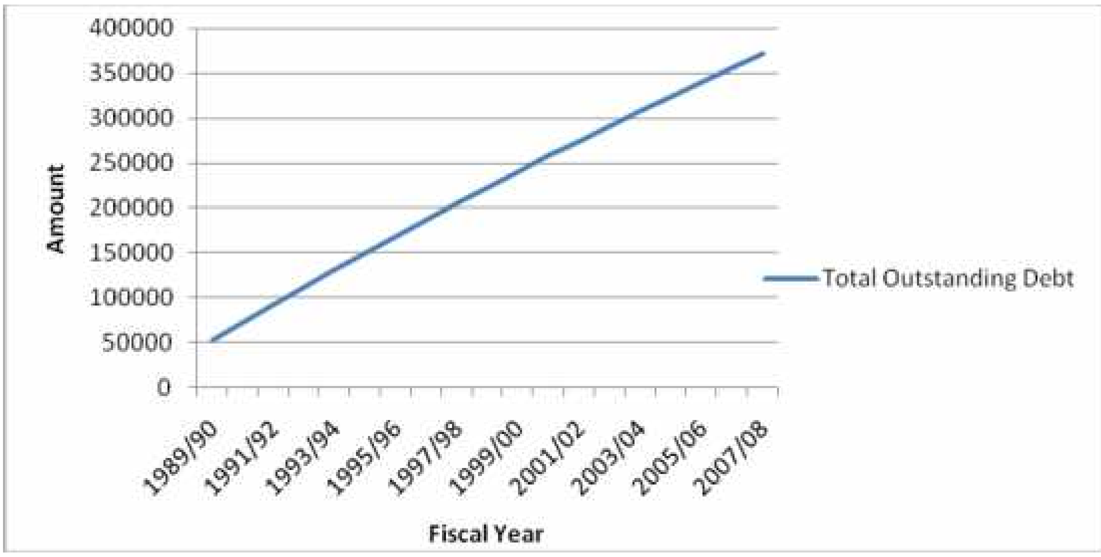


Fig. 4.9 shows that the trend of total outstanding debt is increasing at diminishing rate.

4.1.6 Resources Gap as Percentage of GDP

Table 4.5 reveals that the revenue deficit as percent of GDP and fiscal deficit as percent of GDP.

Table 4.5

Resources Gap as Percentage of GDP

Rs. In Million

Fiscal Year	GDP	Revenue Deficit	Fiscal Deficit	Revenue Deficit as (%) of GDP	Fiscal Deficit as (%) of GDP
1989/90	99702.0	10381.8	8406.4	10.4	8.4
1990/91	116127.0	12819.9	10655.1	11.0	9.2
1991/92	144933.0	12905.5	11261.7	8.9	7.8
1992/93	165350.0	15749.3	11956.7	9.5	7.2
1993/94	191596.0	14106.6	11623.0	7.4	6.1
1994/95	209974.0	14484.8	10547.7	6.9	5.0
1995/96	239388.0	18649.3	13824.2	7.8	5.8
1996/97	269570.0	20350.2	14361.9	7.5	5.3
1997/98	289746.0	23180.4	17777.8	8.0	6.1
1998/99	330018.0	22328.0	17991.4	6.8	5.4
1999/00	366251.0	23378.7	17667.1	6.4	4.8
2000/01	394052.0	30941.5	23187.8	7.9	6.1
2001/02	406138.0	29626.7	22940.6	7.3	5.6
2002/03	437546.0	27776.3	16437.2	6.3	3.7
2003/04	474129.0	27111.6	15828.2	5.7	3.3
2004/05	504101	32437.7	18046.5	6.43	3.58
2005/06	603673	38607.1	24779.6	6.4	4.10

To analyze the revenue deficit as percent of GDP is more important that the GDP is the main indicator of the performance of the economy, which includes different components of the economy, and shows their performance. In this context, revenue deficit as percent of GDP has decreased from 10.4 percent in 1989/90 to 6.43 percent in 2005/06. And average annual rate is 6.4 percent.

The fiscal deficit as percent of GDP, which has included grants, is also decrease from 8.4 percent in 1989/90 to 4.10 percent in 2005/06. The inclusion of grants in government's revenue may not be appropriate because the amount of grant depends upon political consideration of friendly countries, which may have been fluctuation character. Because then the amount of grant is included here, as it doesn't require repayment and therefore, it may be taken as good as revenue.

Figure 4.10

Trend of GDP, Revenue Deficit, Fiscal Deficit

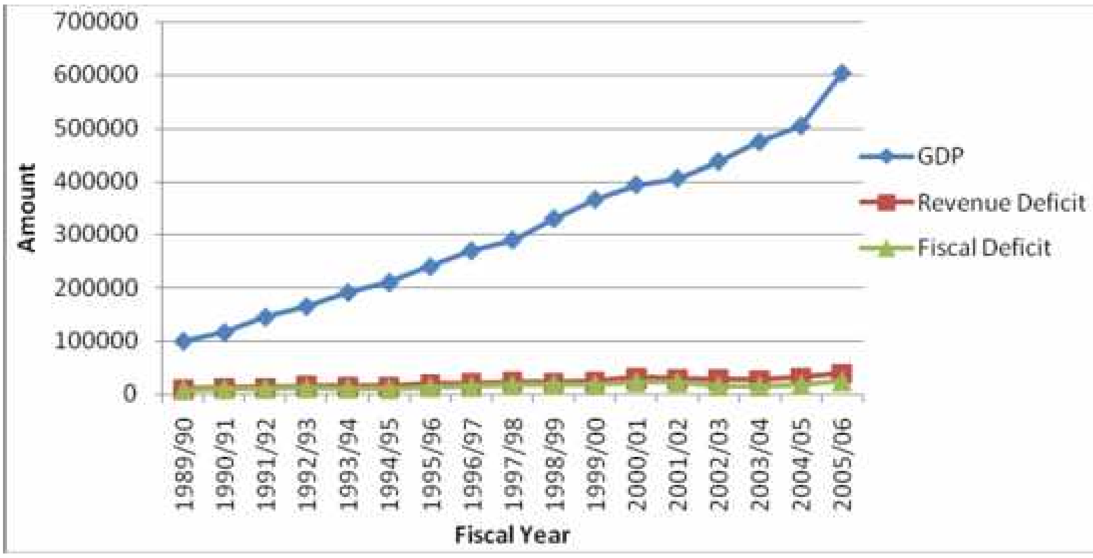


Figure 4.11

Trend of GDP with Forecasting of Two More Years

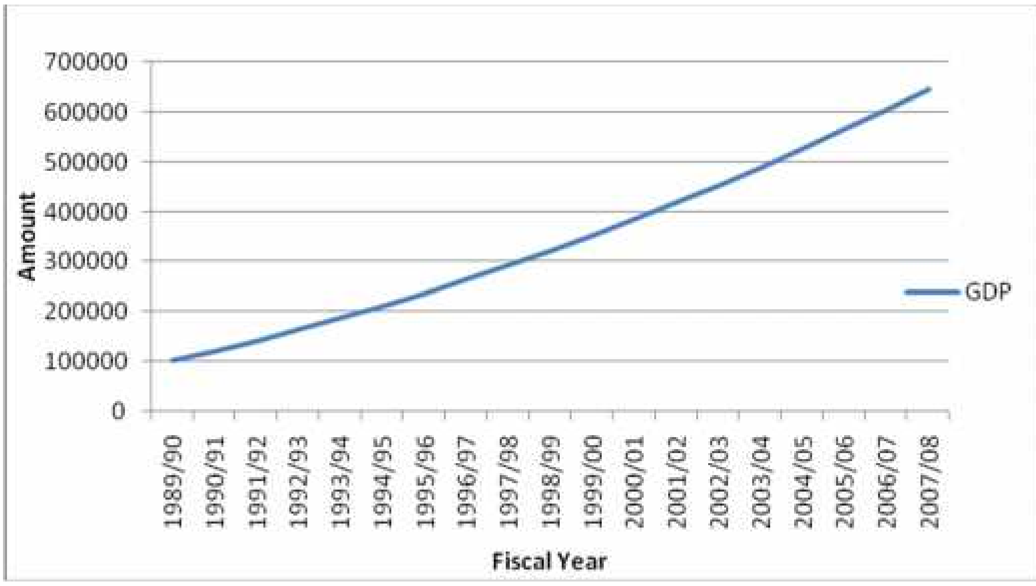


Fig. 4.11 shows that the trend of GDP is increasing at increasing rate.

4.1.7 Source of Internal Borrowing

The government can borrow internal debt from banking and non-banking sources. Borrowing form banking system may be inflationary in which the government borrows from NRB and other banks and borrowing form non-banking sources is not being inflationary in which the government can borrow from except banking system like people.

Table 4.6 shows the sources of internal borrowing form banking and non-banking system and also amount of internal outstanding debt.

Table 4.6

Sources of Internal Borrowing from Banking and Non-Banking System

Rs. In Million

Fiscal Year	Total Internal	Banking System(2)	Non Banking System (3)	(2) as % of(1)	(3) as % of(1)
1989/90	2150.0	1450.0	700.0	67.4	32.6
1990/91	4552.7	3713.2 _J	839.5	81.6	18.4
1991/92	2078.8	1178.8	900.0	56.7	43.3
1992/93	1620.0	920.0	700.0	56.8	43.2
1993/94	1820.0	1000.0	820.0	55.0	35.0
1994/95	1900.0	1300.0	600.0	68.4	31.6
1995/96	2200.0	750.0	1450.0	34.1	65.9
1996/97	3000.0	1500.0	1500.0	50.0	50.0
1997/98	3400.0	1600.0	1800.0	47.1	52.9
1998/99	4710.0	2850.0	1860.0	60.5	39.5
1999/00	5500.0	3300.0	2200.0	60.0	40.0
2000/01	7000.0	-	-	-	-
2001/02	8000.0	-	-	-	-
2002/03	8880.0	-	-	-	
2003/04	5607.8	-	-	-	-
2004/05	8938.1	-	-	-	-
2005/06	11834.2	-	-	-	-
Average annual growth rate	17.31	-	-	-	-

Table 4.6 shows that the source of internal borrowing from banking and non-banking system. In which the percentage share of banking system to total internal borrowing has increased from Rs. 1450.0 million in 1989/90 to Rs. 3300.0 million in 1999/00 where the share of percentage has changed from 67.4 to 60.0 percent. This shows slightly decreasing trend.

Share of non-banking system to total internal borrowing has also increased from Rs. 700.0 million in 1989/90 to Rs. 2200.0 million in 1999/00. In which percentage share increased from 32.6 to 40.0 percent, which indicates that, the contribution of non-banking financial institution and other have been slightly increasing.

4.1.8 Structure of Internal Net Outstanding Debt in Nepal

Nepal has carried out internal borrowing program since four decades. It is used for to meet the resources gap on the budgetary system and mobilizing financial resources for development.

Now the government mobilizes the internal borrowings by issuing mainly treasury bills, development bonds, national special certificate and special bonds which is shown in Table 4.7

Table 4.7
Structure of Internal Net Outstanding Debt

Rs. In Million

Fiscal Year	Total Internal Outs. Debt	Development Bonds	Treasury Bills	National Saving	Special Certificate
1989/90	14673.1	5388.6	1821.0	2896.5	4567.0
1990/91	20855.9	5482.3	2351.0	3646.5	9376.1
1991/92	23234.9	5132.2	3483.2	4546.3	10073.2
1992/93	25456.1	5132.2	4403.2	4901.5	11019.2
1993/94	30631.2	4732.2	5216.3	5691.5	14991.2
1994/95	32057.8	4122.2	6392.5	6076.4	15466.7
1995/96	34241.9	3672.2	7142.5	7376.5	16050.7
1996/97	35890.9	4042.2	8092.5	8736.5	16019.7
1997/98	38406.7	3302.2	9182.5	9886.4	16035.6
1998/99	49669.6	3872.2	17586.9	10426.4	17784.1
1999/00	54357.0	4262.2	21027.0	11526.5	17541.3
2000/01	60043.7	5962.2	27610.8	12476.4	13994.3
2001/02	73620.7	11090.7	41106.5	11536.1	9259.3
2002/03	84645.3	16059.2	48860.7	9629.8	9164.5
2003/04	86133.7	17549.2	49429.6	9029.8	8946.2
2004/05	87564.2	19999.2	51383.1	6576.7	8176.3
2005/06	98710.6	17959.2	62970.3	3876.8	8225.6
Average annual growth rate	13.11	10.46	26.42	4.1	6.94

Table 4.7 shows the structure of internal net outstanding debt in which the government mainly mobilizes the internal resources by four sources. Where the

contribution of treasury bills is larger because its average annual growth rate is 26.42 percent, which is larger than others.

After the enforcement of Public Debt Act 1960, internal debt for the first time was issued Nepal in 1962 through treasury bills amounting to Rs. 7 million. The next instrument of internal debt as development bond was first issued in FY 1963/64, amounting to Rs. 250 million.

Table 4.7 shows the share of treasury bills, development bonds, national special certificate and special bond to total outstanding net internal debt is amounted Rs. 1821.0 million, Rs 5388.6 million, Rs. 2896.5 million and Rs.4567.0 million respectively in 1989/90. Which has been increasing ever the review of this study amounted to Rs. 62970.3 million with 26.42 percent annual growth rate, Rs 19999.2 million with 10.6 percent annual average growth rate, (which has decreased rs 17959.2 in 2005/06 with growth rate 10.46) Rs. 9029.8 million with 9.2 percent of average annual growth rate (which has decreased to Rs 3876.8 millions with average annual growth rate 4.1) and Rs. 8225.6 millions with 6.94 percent of growth rate respectively.

We can reach the conclusion by above table that the volume of internal borrowing is increasing without increase in tax revenue collection proportionate the growth in the government expenditure. This action also will create the inflationary situation, which may lead us into debt crisis in future.

Figure 4.12

Trend of Internal Net Outstanding Debt

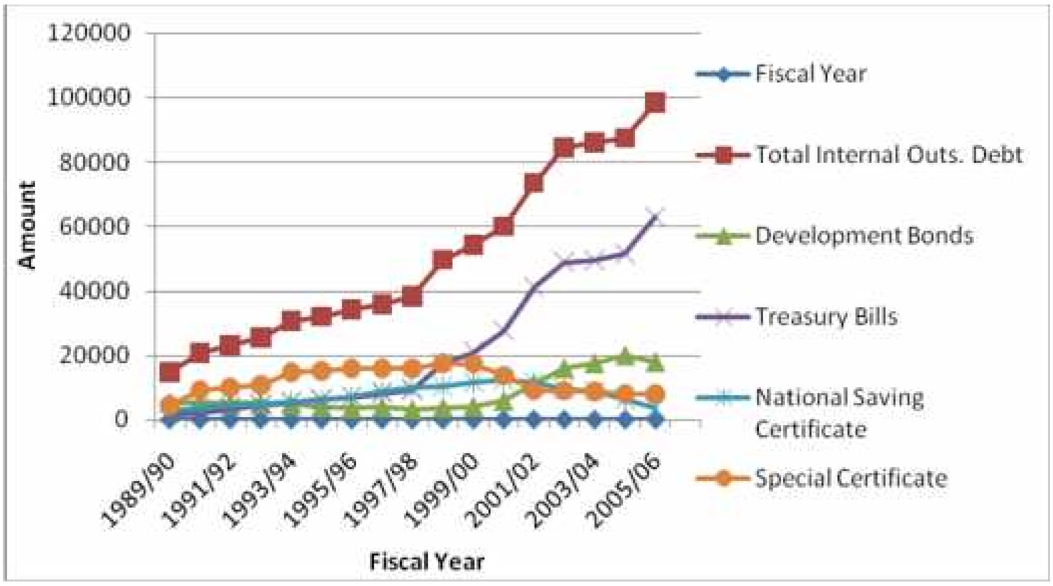


Figure 4.13

Trend of internal debt outstanding with Forecasting of Two More Years

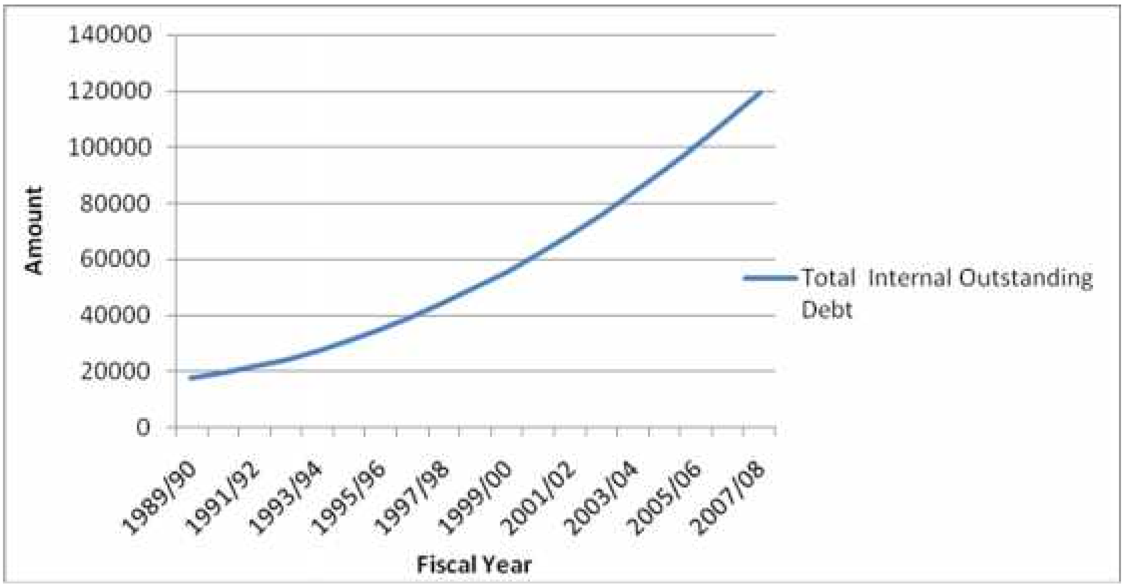


Fig. 4.13 shows that the trend of total Int. debt is increasing at increasing rate.

4.1.9 Structure of External Debt in Terms of Disbursement by Major Source

Nepal's first experience of foreign economic assistance was heralded by the POINT FOUR- program agreement signed on 23 Jan. 1951. In which the U.S. Government's assistance of Rs. 22 thousands was provided. But Nepal has started to borrow foreign loan since 1964/65. The foreign assistance grants and loans are the major source of foreign currency for Nepal.

Nepal has borrowed the external loan through bilateral ands multilateral sources. Bilateral loans are loans from government and their agencies, loans from, autonomous bodies and direct loans from official expert credit agencies. Multilateral loans are loans and credits from multilateral agencies as World Bank, IMF, Regional Development Banks and other multinational and intergovernmental agencies. Now, we have the burden of Rs 234805.6 million in 2005/06 of foreign loan.

Table 4.8 shows the structure of external debt in terms of disbursement by major sources

Table 4.8

Structure of External Debt in Terms of Disbursement by Major Sources

Rs. In Million

Fiscal Year	Total External Loan(l)	Bilateral Loan (2)	Multilateral Loan (3)	(2) as percentage of (l)	(3) as percentage of(l)
1989/90	4628.3	1000.6	3627.7	21.6	78.4
1990/91	4360.0	1602.8	2757.2	36.8	63.2
1991/92	6269.4	2389.8	3879.6	38.1	61.9
1992/93	5961.7	1307.6	4654.1	21.9	78,1
1993/94	9163.3	582.9	8580.7	6.4	93.6
1994/95	L 7312.3	717.3	6595.0	4.3	95.7
1995/96	9463.9	460.0	9003.9	4.9	94.1
1996/97	9043.6	850.7	8192.9	9.4	90.6
1997/98	11054.5	1314.5	9740.0	28.4 .	71.6
1998/99	11852.4	584.0	11268.4	4.9	L95.1
1999/00	11812.2	757.9	11054.3	6.4	93.6
2000/01	12044.0	586.7	11457.3	4.9	95.1
2001/02	7698.6	87.0	7611.6	1.1	98.9
2002/03	4546.4	657.2	3889.2	14.5	85.5
2003/04	7629.0	66.0	7563.0	0.9	99.1
2004/05	9266.1	126.5	9139.6	1.37	98.63
2005/06	8214.3	40	8173.7	0.4	99.6
Average annual growth rate	7.74	37.1	11.55	10.91	89.09

Looking at table 4.8, we can see the decreasing trend of bilateral loans and increasing trend of multilateral loans under the review period. In the beginning of the review period the share of bilateral loan to total external loan is Rs. 1000.6 million (21.6%) and multilateral is Rs. 3627.7 million (78.4%). And at the end of year of this study the bilateral loan gas been decreasing to Rs. 40 million (0.4%) and multilateral loan has been increasing to Rs. 8173 million (99.6%). The average annual growth rate of bilateral and multilateral loans to total external loans is 10.91 percent and 89.09 percent respectively under the period of study

Table 4.8 refers that the multilateral external debt has dominated the bilateral debt in the structure of external debt in Nepal. Where as average annual growth rate of multilateral loan is 11.55 percent and bilateral is 37.1 percent due to the larger amount different 'between' one year to another year.

Figure 4.14

Trend of Multilateral and Bilateral Debt

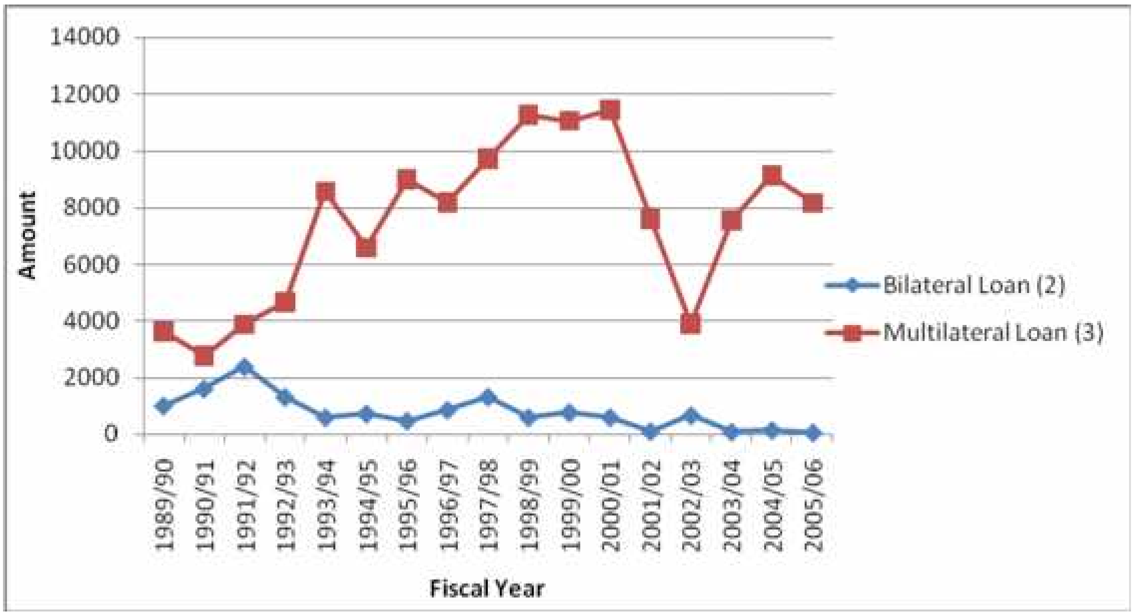


Figure 4.15

Trend of External Debt with Forecasting of Two More Years

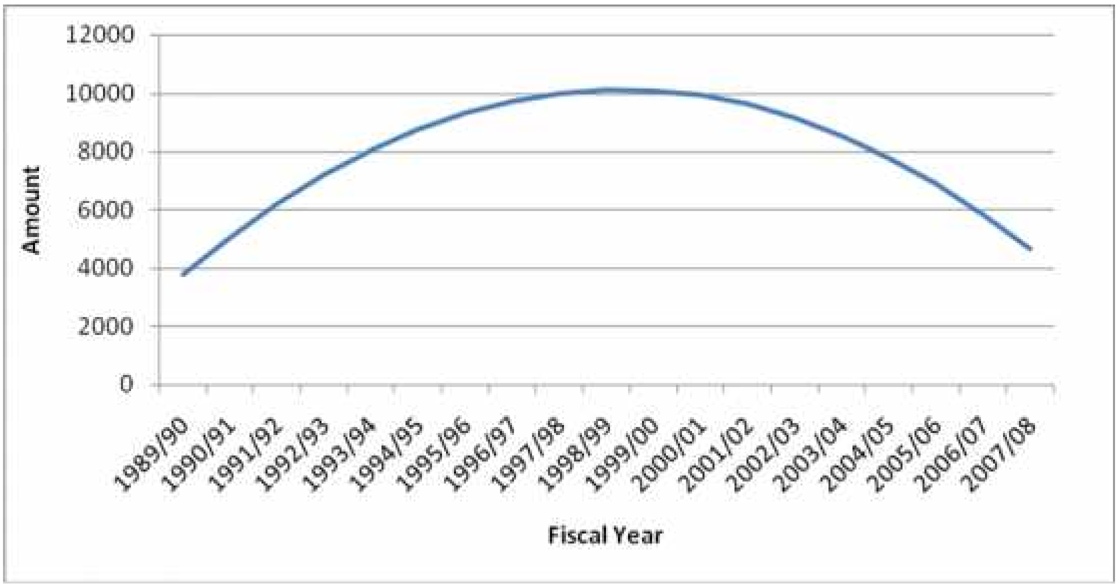


Fig. 4.15 shows that the trend of total External debt is increasing at

diminishing rate till 1988/89 and declining there after.

4.2 Burden of Public Debt in Nepal

4.2.1 Introduction

The burden of public debt refers to the sacrifice it will impose on the community through a rise in taxation, necessitated at the time of repayment and for paying the annual interests in the government loans. In other words, it refers every government is bound to repay the public borrowing whether internally or externally with interest. This it may tend to fall either on the present or sometimes of the future generation.

Burden of public debt can be divided into two parts: (i) internal burden of public debt (ii) external burden of public debt. The internal means that the greater part of the debt is held internally. Dalton (1949) takes internal public debt impact as not much significant as the payment of principle amount and its interest involves taxation. It is merely transfer of purchasing power from one person to another or money does not flow out of the national money market. Similarly, Lerner (1946) points out, the internal debt may not have any direct money impact on a community as a whole, since the payment of interest and taxation to meet the burden of debt involved simply transfer the purchasing power from one group of person to another, to the extent the creditors and tax payer are the same, there may not be any net burden at all in the community. But to the extent of the creditors and tax payer belong to different income groups; the changes in the distribution of income among different section of the community may take place.

In case of external debt impact is, however completely different. External debt imposes real impact on the economy because it reduces national welfare. External debt is paid not in money terms but in real terms, in terms of goods and services, which are exported to the creditor country for the settlement of the debt. This process will have to continue during the whole period of loan because the borrower country has to pay interest charges, but if external loans are used for increasing the productive capacity of the country the debt repayment may not be a serious burden. The debtor country may pay off the debt and interest without any difficulty because of increased capacity of export oriented industries. If debtor country does not sufficiently increase the productive capacity they will have to face the balance of payment problem.

Therefore, any borrowed country has to be spent the borrowed fund on creation of productive capacity which further generate income and increases the rate of capital formation then it is quite possible that the debt would not be burdensome to the society. If the borrowed fund spent otherwise and the government would have to borrow again to meet the requirements of development funds and for meeting the charge of debt servicing as well then it is quite possible that this process lead to bankruptcy of the government or debt crisis in the future.

In case of shifting the impact of public debt to the future generation, there is always debate among the economists, some of the economists have viewed if the present generation reduces its saving in order to meet the debt finance and leaves a smaller amount of capital resources for the future, this will reduce the productive capacity of the coming generations and they will accordingly lose. In this way, impact of public debt may pass on to the future generation. But on the other hand, some economists have challenged the above version and opposite opinion on the subject of impact of public debt. They submit that here is no shift of the basic impact to the future generation because the state posterity, which pays the additional taxes, will be benefited from the repayment of the debt

Through above discussion, we can say that it is difficult to conclude a specific opinion in the issue. Thus, the question of shifting the burden of public debt to the future generation has remained an unsettled riddle so far.

In case of Nepal, outstanding of public debt is increasing rapidly each year that which become -67.0 percent of GDP. Large scale of public debts have been incurred in the pas for financing development programs, but debt servicing capacity has not increasing in the same pace so that there may be undue strain in the balance of payment owing to outflow of funds through debt services. Nepal has been borrowing new fresh loans to repayment old loans. This also has alarmed the situation of 'debt trap' in the future.

Here, this chapter has analyses the issue related to debt servicing and macro economic indicators, burden of debt to GDP, investment saving gap etc.

4.2.2 Impact of Outstanding Public Debt and GDP

Nepal has to borrow huge amount of external as well as internal loans for meeting the deficit budget. And on the other hand, the tax revenue and non tax revenue are not increasing as it predicts and improper utilization of public debt and corruption, debt servicing capacity is not increasing so that impact of debt through the method of measure of impact of debt as the ratio of public debt to GDP.

Table 4.9

Outstanding of Public Debt and GDP

Rs. in million

Fiscal Year	Total Public Debt Outs.(l)	External Debt Outs. (2)	Internal Debt Outs (3)	GDP (4)	(l)as % of (4)	(2) as % of (4)	(3) as ' % of (4)
1989/90	51474.0	36800.9	14673.1	99702.0	51.6	36.9	14.7
1990/91	80361.2	59505.3	20855.9	116127.0	69.2	51.2	18.0
1991/92	94158.8	70923.9	23234.9	144933.0	65.0	48.9	16.0
1992/93	112876.8	87420.8	25456.0	165350.0	68.3	52.9	15.4
1993/94	132598.0	101966.8	30631.2	191596.0	69.2	53.2	J6.0
1994/95	145058.8	113000.9	32057.9	209974.0	69.1	53.8	15.3
1995/96	162286.2	128044.4	34241.8	239388.0	67.8	53.5	14.3
1996/97	167977.6	132086.8	35890.8	269570.0	62.3	49.0	13.3
1997/98	199614.7	161208.0	38406.7	289746.0	69.9	56.4	13.4
1998/99	219135.5	169465.9	49669.6	330018.0	66.4	51.3	15.0
1999/00	245048.2	190691.2	54357.0	366251.0	66.9	52.0	14.9
2000/01	260448.1	200404.4	60043.7	394052.0	66.1	50.9	15.2
2001/02	293746.3	220125.6	73620.7	406138.0	72.3	54.2	18.1
2002/03	308078.5	223433.2	84645.3	437546.0	70.4	51.1	19.3
2003/04	318913.0	232779.3	86133.7	474129.0	67.3	49.1	18.2
2004/05	307206.1	219641.9	87564.2	504101.0	60.9	43.6	17.4
2005/06	329516.2	234805.6	94710.6	539813.0	61.0	43.5	15.9
Average Annual Growth Rate	12.9	13.3	12.8	11.3	66.1	43.5	17.5

Observing Table 4.9, it shows the magnitude of outstanding debt, GDP and their ratio, which also assesses the burden of public debt.

Total outstanding of public debt has increased from Rs. 51474.0 million in 1989/90 to Rs 329516.2. Million in 2005/06 and share of it to GDP has increased from 51.6 percent to 66.1 percent. This indicates horrible situation of burden of debt in Nepal. In which the share of internal debt and external debt has increased 14.7 to 17.5 percent and 36.9 to 43.5percent respectively under the period of study. It shows that the burden of external outstanding debt is greater than internal which may be danger in the future general.

Here, GDP is also increasing from Rs. 99702.0 million to Rs.539813.0 million under the period of study. Its growth rate is less than growth rate of outstanding debt.

4.2.3 Issues of Debt Servicing in Nepal

Table shows the ratio of internal and external debt servicing to total debt servicing and their average annual growth rate and percentage of external and internal to total internal debt servicing.

Table 4.10

Share of External and Internal Debt Servicing in Total Debt Servicing

Rs. In Million

Fiscal Year	Total Debt Servicing (1)	External Debt Servicing (2)	Internal Debt Servicing (3)	(2) as percentage of(l)	(3) as percentage of(l)
1989/90	2279.2	1123.6	1155.6	49.3	50.7
1990/91	2407.4	1086.5	1320.9	45.1	54.9
1991/92	3797.1	1664.9	2132.2	43.8	56.2
1992/93	4560.5	2131.9	2428.6	46.7	53.3
1993/94	4855.1	2488.7	2366.4	51.3 ,	L48.7
1994/95	6083.3	2984.8	3098.5	49.1	50.9
1995/96	6715.5	3304.3	3411.2	49.2	50.8
1996/97	7527.3	3349.4	4177.9	44.5	55.5
1997/98	7682.2	4201.2	3481.0	54.7	45.3
1998/99	8723.0	4745.5	3977.5	54.4	45.6
1999/00	10046.7	5321.4	4725.3	53.0	h47.0
2000/01	10394.7	6201.4	4193.2	59.7	U0.3
2001/02	12205.3	6567.5	5637.8	53.8	46.2
2002/03	16182.6	7519.2	8663.4	46.5	53.5
2003/04	17340.1	7908.9	9431.2	45.6	54.4
2004/05	19751.3	8101.3	11656.0	41.0	59.0
2005/06	20423.5	5493.9	14929.6	26.9	73.1
Average Annual Growth Rate	15.0	12.1	18.9	41.7	46.2

Observing Table 4.10, the amount of total debt servicing was Rs. 2279.2 million in 1989/90 and has increased to Rs. 20423.5 million in 2005/06 with average annual growth rate by 15.0 percent. This shows an increasing trend of total debt servicing.

The volume of external debt servicing was Rs. 1123.6 million and increased to 5493.9 million under the review period and internal was Rs 1156.6 million and increased to Rs. 14929.6 million. The percentage of internal debt outstanding of total debt outstanding is higher than external 41.7 and 46.2 percent respectively in 2005/06 shows these.

Table shows the servicing amount of interest payments and principal payment in total debt servicing amount.

Figure 4.16

Trend of Total, External, Internal Debt Serving

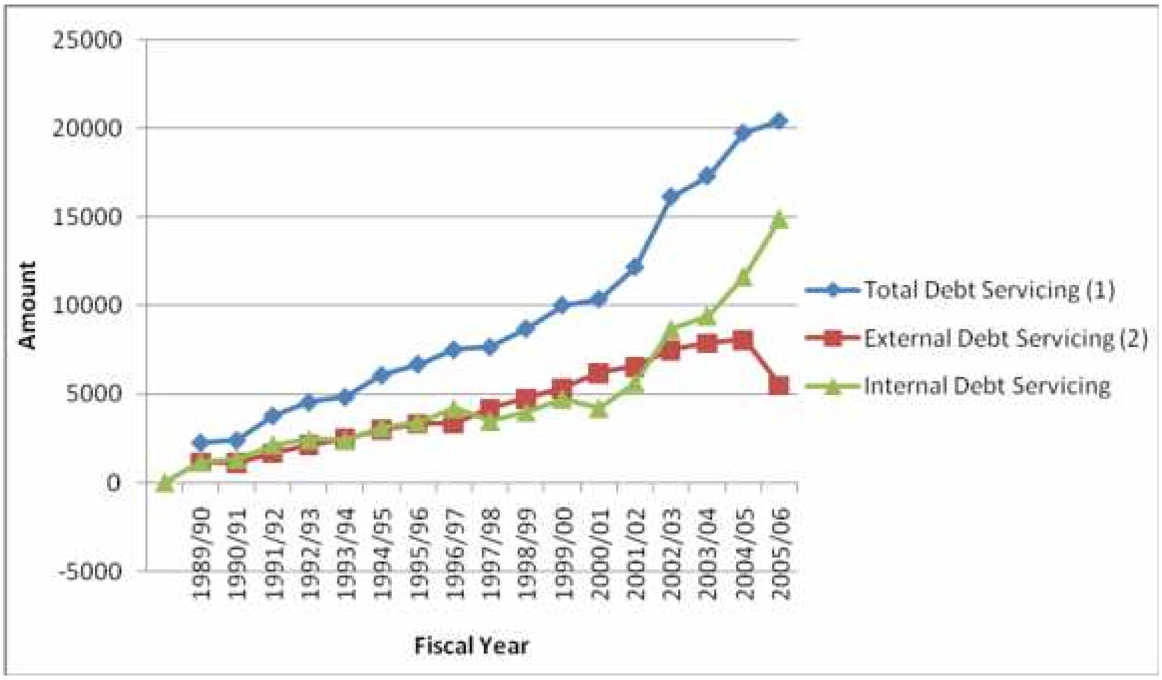


Figure 4.17

Trend of Total Debt Servicing with Forecasting of Two More Years

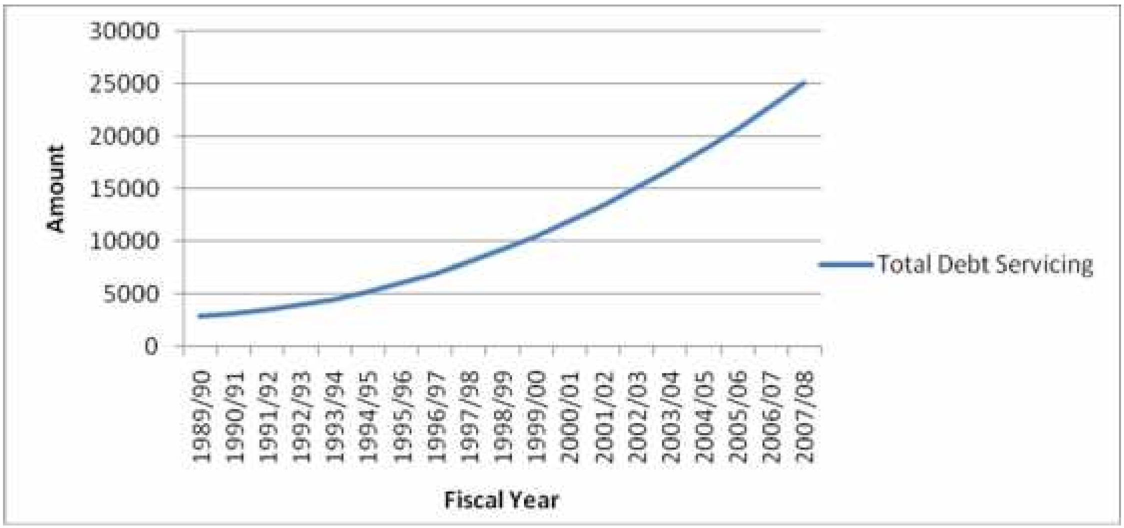


Fig 4.17 shows that the trend of total debt is increasing at increasing rate.

Share of Interest and Principal Payment in Total Debt Servicing

Table 4.11

Share of Interest and Principal Payment in Total Debt Servicing

Rs. In Million

Fiscal Year	Total Debt Servicing (1)	Principal Payments (2)	Interest Payment (3)	(2) as percentage of(1)	(3) as percentage of(1)
1989/90	2279.2	802.3	1476.9	35.2	64.8
1990/91	2407.4	739.0	1668.4	30.6	69.4
1991/92	3797.1	1207.0	2590.1	31.8	68.2
1992/93	4560.5	1597.9	2962.6	35.0	65.0
1993/94	4855.1	1898.2	2956.9	39.0	61.0
1994/95	6083.3	2653.2	3430.1	43.6	56.4
1995/96	6715.5	2847.5	3867.9	42.4	57.6
1996/97	7527.3	3453.3	4073.9	45.9	54.1
1997/98	7682.2	3931.2	3751.6	51.1	48.9
1998/99	8723.0	4642.7	4080.3	53.2	46.8
1999/00	10032.8	5212.7	4820.1	52.0	48.0
2000/01	10388.4	5690.9	4697.8	54.8	45.2
2001/02	12205.2	6434.9	5770.3	52.7	47.3
2002/03	16181.3	9559.5	6621.8	59.1	40.9
2003/04	17338.8	10794.9	6543.9	62.2	37.8
2004/05	19751.3	13533.3	6218.0	68.5	31.5
2005/06	20423.5	14264.8	5158.7	69.8	30.2

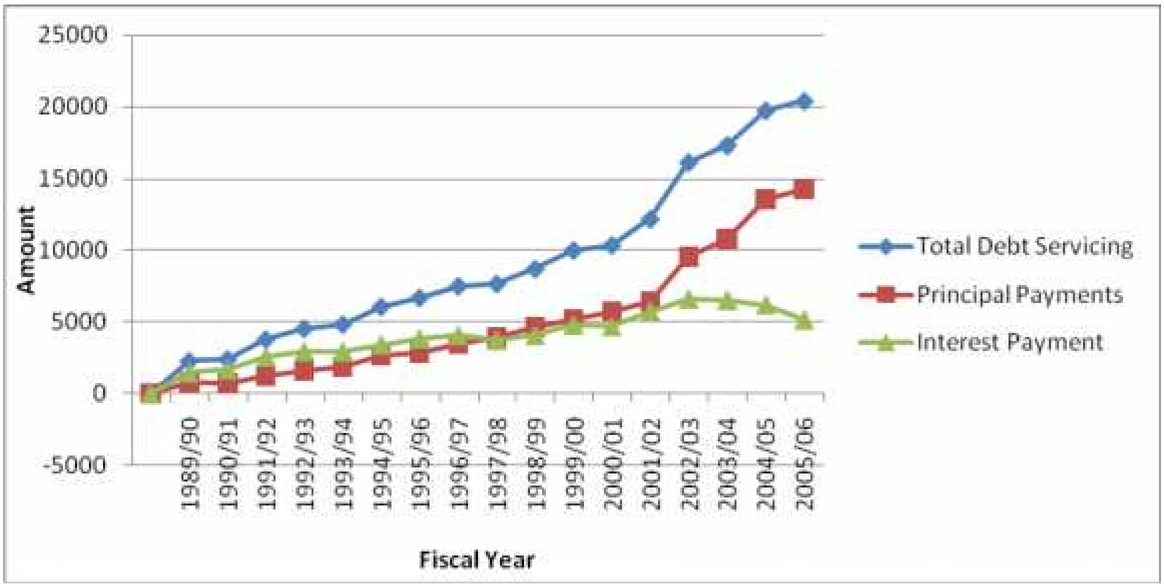
Average Annual Growth Rate	15.5	20.9	10.3	41.2	58.8

While observing Table we can see 15.5 percent of average annual growth rate of increasing trend of total debt servicing. Where share of interest amount was Rs. 1476.9 and has maintained up to Rs.6543.9 and share of principal amount was Rs. 802.3 and has hone up to Rs. 10794.9 in 2003/04 but it decreased in 2004/05 and i.e. 6218.0 and 5758.7 respectively under the period of this study. The average annual growth rates of there are 10.3 and 20.9 percent respectively. This shows the increasing trend of principal payments is higher than interest payments and payment capacity is decreasing up to the study..

The share of interest payments to total debt servicing is greater than principal payments till 1996/97. But, after that the share of principal amount to total debt servicing is greater than interest payment till under the review period.

Figure 4.18

Trend of Total Debt Serving, Principal Payments, Interest Payments



4.2.4 Ownership Pattern of Internal Debt Servicing Situation

The burden of public debt is measured by the ratio between the debt servicing and aggregate tax revenue and non-tax revenue or total revenue and the ratio between servicing cost and national income (GDP). This has been shown in Table.

Table 4.12

Share of Internal Debt Servicing in Total Revenue, Regular Expenditure and GDP

Rs. In Million

Fiscal Year	Regular Exp.	Total Revenue	GDP	Internal D.S.	D.S. as % of RE	D.S. as % ofTR	D.S. as % of GDP
1989/90	6671.8	9287.5	99702.0	1155.6	17.3	12.4	1.2
1990/91	7570.3	10729.8	116127.0	1320.9	17.4	12.3	1.1
1991/92	9905.4	13512.7	144933.0	2132.2	21.5	16.1	1.5
1992/93	11484.1	15148.4	165350.0	2428.6	21.1	16.0	1.2
1993/94	12409.2	15580.9	191596.0	2366.4	19.1	12.1	1.5
1994/95	19265.1	24605.1	209974.0	3098.5	16.1	12.6	1.4
1995/96	21561.9	27893.1	239388.0	3411.2	15.8	12.2	1.6
1996/97	24181.1	30373.5	269570.0	4177.9	17.3	13.8	1.2
1997/98	27174.4	32937.9	285702.0	3481.0	12.8	10.5	1.2
1998/99	31944.2	37251.3	330018.0	3977.5	12.4	10.6	1.2
1999/00	35579.1	42893.7	366251.0	4725.3	13.3	11.0	1.2
2000/01	45837.3	48893.9	394052.0	4193.2	9.2	8.6	1.1
2001/02	48863.9	50445.5	406138.0	5637.8	11.5	11.2	1.4
2002/03	52090.5	56229.8	437546.0	8663.4	16.6	15.4	2.0
2003/04	55552.1	62331.0	474129.0	9431.8	17.0	15.2	2.0
2004/05	61686.4	70122.7	504101.0	11656.0	18.9	16.6	2.3
2005/06	67017.8	72282.1	539813.0	14929.0	22.3	20.7	2.8
Average Annual Growth Rate	16.2	14.0	11.3	18.9	15.8	13.1	1.8

Table shows the average annual growth rate and volume of regular expenditure, Total Revenue, GDP and internal debt servicing. It also shows the share of TR, RE and GDP as percentage of internal debt servicing.

Under the period of study, the magnitude of regular expenditure, total revenue, GDP and internal debt servicing was Rs. 6671.8 Rs. 9827.5 Rs. 99702.0 and Rs. 1155.6 million in 1989/90 and has increased to Rs 67017.8, Rs. 72282.1, Rs. 539813.0, and Rs. 14929.0 million in 2005/06 respectively.

Table also shows average annual growth rate of regular expenditure total revenue, GDP and internal debt servicing which are 16.2, 14.0, 11.3 and 18.3 percent respectively. It shows that the growth rate of internal debt servicing is more than growth rate of regular expenditure, total revenue and GDP. This indicates that the servicing capacity of the government has increasing as the same pace of regular expenditure and total revenue.

The trend of debt servicing as percentage of regular expenditure has been decreasing and fluctuating. Debt servicing as percentage of regular expenditure was 17.3 percent in 1989/90 and has been fluctuating. Trend of debt servicing as percentage of Total Revenue has been increasing, debt servicing as percentage of total revenue was 12.4 percent in 1989/90 has increased to 20.7 percent under the period of study. Similarly the trend of debt servicing as percentage of GDP also has been increasing which was 1.2 percent in 1989/90 has increased to 1.8 percent in 2005/06.

Outstanding of Public Debt, Development Expenditure and Debt Servicing

Table 4.13

Outstanding of Public Debt, Development Expenditure and Debt Servicing

Rs. In Million

Fiscal Year	Total Public Debt(l)	Total Debt Servicing (2)	Dev. Expenditure (3)	(1) as percentage of (3)	(2) as percentage of (3)
1989/90	51474.0	2279.2	12997.5	396.0	17.5
1990/91	80361.2	2407.4	15979.5	502.9	15.1
1991/92	94158.8	3797.1	16512.8	570.2	23.0
1992/93	112876.8	4560.5	19413.6	581.4	23.5
1993/94	131598.0	4855.1	21188.2	625.8	22.5
1994/95	145058.8	6083.3	19794.9	732.8	30.7
1995/96	162286.2	6715.5	24980.5	649.7	26.9
1996/97	167977.6	7527.2	26542.6	632.9	28.4
1997/98	199614.7	7682.8	28943.9	689.7	26.5
1998/99	219135.5	8723.0	27634.8	793.0	31.6
1999/00	245048.2	10032.7	30693.4	798.4	32.7
2000/01	260448.1	10388.4	33997.8	766.1	30.6
2001/02	293746.3	12205.2	31208.3	941.2	39.1
2002/03	308078.5	16181.3	31915.6	965.3	50.7
2003/04	318913.0	17338.8	33890.5	941.0	51.2
2004/05	307206.1	19751.3	40874.0	751.6	48.3
2005/06	329516.2	20423.5	43871.4	751.1	46.6

Average Annual Growth Rate	12.9	15.5	8.2	711.2	25.9

Observing Table 4.13, we can see the volume of outstanding public debt was Rs. 51474.0 million in 1989/90 and has increased to Rs. 329516.2 million in 2005/06 with the 12.9 percent average annual growth rate. These show the real burden of debt of Nepal where total outstanding of public debt as percentage of development expenditure was 396.0 percent has maintained up to 941.0 percent in 2003/04 but it is decreased up to 751.1 at the end year of study.

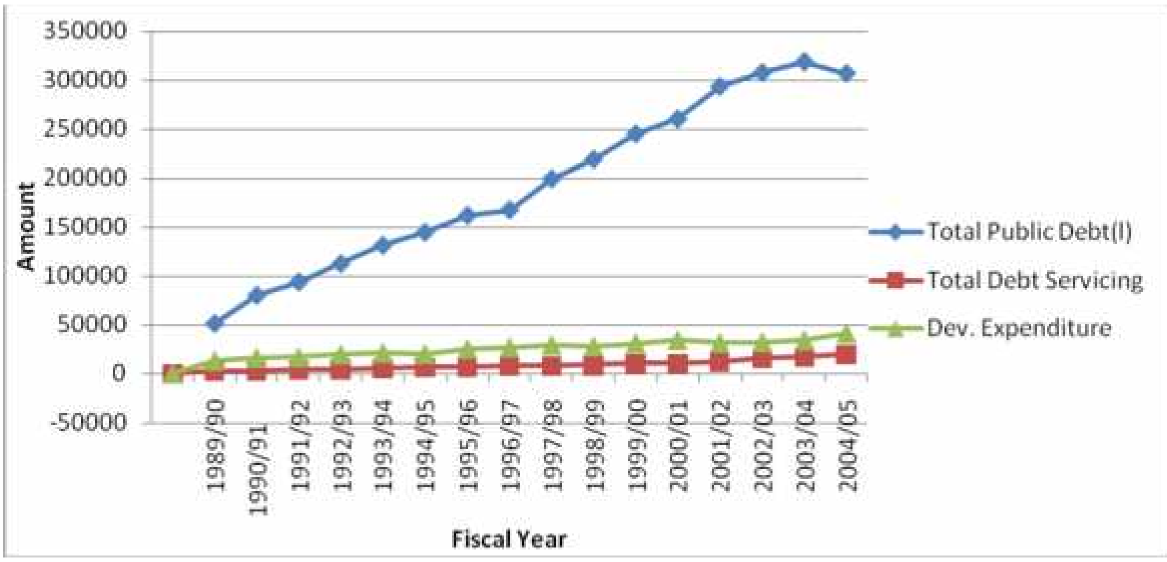
Development expenditure has also gone up to Rs.43871.4 million at end year from Rs. 12997.5 million at the beginning year with the 8.2 percent average annual growth rate. This shows the increasing trend of development expenditure is less than outstanding public debt.

Likewise, total debt services was Rs. 2279.2 million in 1989/90 and has gone up to Rs. 20423.5million in 2005/06 with 15.5 percent of average annual growth rate but it is more than the rate of outstanding debt. Total debt servicing as percentage of development expenditure has increasing from 17.5 to 46.6 percent under the period of study.

While discussing about the impact of internal debt, the analyses of internal debt and annual internal borrowing are important aspect of it. The table 5.6 has shown the proportional relationship between annual internal debt servicing and annual borrowing.

Figure 4.19

Tren of Total Public Debt, Total Debt Serving, Development Expenditure



Annual Internal Debts Servicing as Percent of Annual Internal Borrowing

Table 4.14

Annual Internal Debts Servicing as Percent of Annual Internal Borrowing

Rs. In Million

Fiscal Year	Internal	Internal	IDS as Percentage of
1989/90	2150.0	115.6	53.7
1990/91	4552.7	1320.9	29.0
1991/92	2078.8	2132.2	102.0
1992/93	1620.0	2428.6	184.0
1993/94	1820.0	L2366.4	130.0
1994/95	1900.0	3098.5	163.1
1995/96	2200.0	3411.2	155.1
1996/97	3000.0	4177.9	139.3
1997/98	3400.0	3481.0	102.3
1998/99	4710.0	3977.5	84.4
1999/00	5500.0	4725.3	85.9
2000/01	7000.0	4193.2	59.9
2001/02	8000.0	5637.8	70.5
2002/03	8880.0	8663.4	97.6
2003/04	5607.8	9431.8	168.2
2004/05	8938.1	11656.0	130.4
2005/06	11834.2	14929.6	126.2

Average Annual Growth Rate	17.3	18.9	94.0

Observing the above table 4.14, we can find out the volume of internal debt was Rs. 2150.0 million in 1989/90 and has gone up to Rs. 11834.2 million in 2005/06 with 17.3 percent of average annual growth rate. Likewise internal debt servicing is also gone up from Rs. 115.6 million to Rs. 14929.6 million with 18.9 percent of annual growth rate under the period of study.

The volume of internal debt is higher than internal debt servicing in 1989/90 to 90/91 but after 1990/91 the magnitude of internal debt servicing exceed the amount of internal debt till 1997/98. This situation indicates that the internal borrowing being spent on debt servicing and also shows that the government ability to borrow from internal sources is not conducive to raise enough funds for development requirement and this also shows that the increasing proportion of internal debt servicing is the manifestation of unproductive expending of borrowed fund.

After 1989/90, the proportion of internal debt servicing to the internal debt is declining and reached from 102.3 percent to 59.9 percent till 2000/01. But in 2003/04 the proportion of internal debt servicing to internal debt is increasing and reach from 59.9 percent to 168.2 percent. But again it is decreased in 2004/05 and reached up to 126.2

The high reliance on internal borrowing for financing budgetary deficit may have some causes.

1. Huge amount of development fund diverted for meeting debt servicing charge annual which comes under regular expenditure.
2. Some borrowing portion, from NRB, will have effect on money supply and consequently it has direct impact in money supply and increased prices.

3. Likewise, borrowing from commercial bands will create Crowding Out of private sector investment.

4.2.5 Trade and Balance of Payment

One of the serious problems of Nepal is the trade deficit and current account deficit, which has been increasing each year rapidly and to restoration it, the government has to do enough, improve on exports and imports. Nepal also has to review the Nepal-India Trade Treaty 1996.

One of the main features of Nepal's foreign trade is slow growth of exports and acceleration on imports, which is leading the trade deficit.

Shows the percentage share of Exports and Imports to GDP

Table 4.15

Foreign Trade Situation

In Rs Million

Fiscal Year	Export (1)	Import (2)	GDP (3)	(1) as % of (3)	(2) as % of (3)	Trade Deficit As % of GDP
1989/90	5169.9	18356.5	99702.0	5.1	18.4	12.8
1990/91	7403.3	23255.7	116127.0	6.3	20.0	13.2
1991/92	13725.6	31987.0	144933.0	9.4	22.0	12.2
1992/93	17286.4	39259.9	165350.0	10.4	23.7	12.8
1993/94	19316.0	51628.7	191596.0	10.0	26.9	16.2
1994/95	17680.3	63740.4	209976.0	8.4	30.3	21.2
1995/96	19912.7	74570.8	239388.0	8.3	31.3	22.1
1996/97	22663.1	93661.9	269570.0	8.4	34.7	25.3
1997/98	27540.2	89153.8	289798.0	9.6	31.2	20.4
1998/99	35692.7	87695.0	330018.0	10.8	26.5	15.2
1999/00	49844.3	108624.4	366251.0	13.6	29.6	15.5
2000/01	55676.5	115797.0	394052.0	14.1	29.4	14.7
2001/02	46964.2	107531.0	406138.0	11.6	26.5	14.9
2002/03	49951.2	124542.8	437546.0	11.4	28.5	17.0
2003/04	53910.7	136277.1	474129.0	11.4	28.7	17.4
2004/05	58705.7	149473.6	504101.0	11.6	29.7	18.0
2005/06	60234.1	173780.3	539813.0	11.2	32.2	21.0
Average Annual Growth Rate	18.7	15.7	11.3	10.2	27.8	16.0

Table 4.15, shows the different aspect of the foreign trade and balance of payment of Nepal. In which the income of export was Rs. 5169.9 million in 1989/90 and has increased to Rs. 60234.1 million in 2005/06 with the 18.7 percent of average annual growth rate.

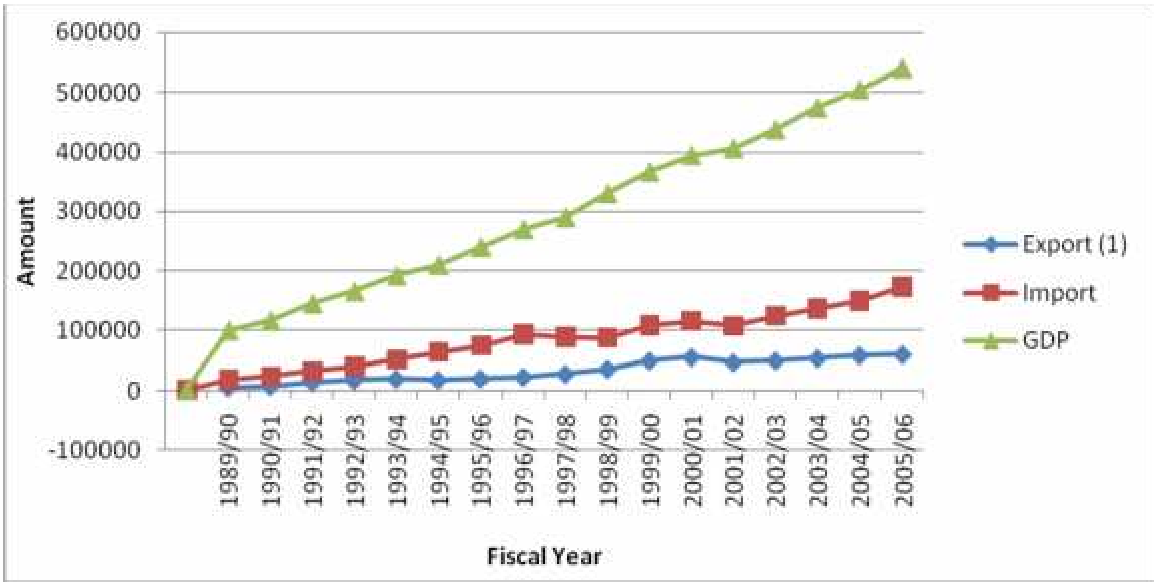
The table also shows that the annual growth rate of export has increased in 1991/92 but in 1994/95 it was become negative rate -8.6. As a overall the trend of export growth rate is declining. The share of exports as percentage of GDP has increased from 5.1 to 11.2 percent under the period of study.

The magnitude of imports payments has mounted up from Rs. 18356.5 million to Rs. 173780.3 million with the 15.7 percent of average annual growth rate. It shows absolute amount of import payment is larger than export earnings but in the context of growth rate, increasing trend of growth rate of export earning is greater than import payment. Here, import payments as percentage of GDP is also increasing from 18.4 to 32.2 percent. This trend shows that situation of imports payment compare to exports earning which leads to trade deficits.

Ratio of trade deficit to GDP was 12.8 percentages in 1989/90 and has increased to highest point 25.3 in 1996/97 as slowly declining and reached 14.7 percent in 2000/01 and again slowly increased 21.0 percent at the end year of the study.

Figure 4.20

Trend of Export, Import, and GDP



4.2.6 Issues of Foreign Loans

4.2.6.1 Background

Under developing countries like Nepal is facing the serious problem of scarcity of domestic capital formation, which is more essential for development process. And there countries are also facing he shortage of foreign exchange. So, these countries have to borrow public debts from within the country as well as from the external sources like foreign countries and international agencies to break out the vicious circle of insufficient capital formation and development bottlenecks. The scopes for domestic borrowing in these countries are very limited, because internal resources are scarce. So, only external borrowing remains the alternative to be undertaken by these countries.

Nepal is facing various problems like poverty, unemployment and Nepal's macro economic indicators show also negative growth rate and declining economic performance. Recently, Nepal has to invest huge amount of expenditure for security, which seems unproductive in present situation. Due to this reason, Nepal will have to depend upon foreign assistance and external loans. Owing to heavy reliance on external assistance in the form of borrowing in public account, Nepal's external public indebtedness has increased very much. A rise in external indebtedness should be accompanied by an increase in debts servicing capacity so that there may be undue strain in the balance of payment awing to outflow of funds through debt services, which may lead to the country to the heavy burden of debt and debt crisis in the future.

Although, foreign loans are main pillars for development process and to break out vicious circle of insufficient domestic capital formation, it has adverse effect on national economy when it's servicing, means that the scarce foreign exchange resources have to be transferred to creditor's countries.

When external debt services has obvious impact on domestic capital formation and leads to reduction in the domestic standard of living unless the loans are used for financing profitable investments whole yield id enough to satisfy creditors claims for debt servicing, Therefore, the true burden of debt service depends to a substantial extent in how the borrowed fund from external sources can be transformed into productive investment. If the foreign loans are used into unproductive investment projects that provide present consumption with more goods than being produced in the country then foreign debt servicing if the debt because quite impossible.

or the purpose of foreign debt servicing foreign currency has to be earned through increasing volume of exportable goods and services. If this is not done then the purpose of external loan is not fulfilled and it really becomes burden on next generation. Therefore, it is very essential that the real income of the national economy grows faster than the transfer of resources resulting from its external debt servicing for this requires ever growing flow of foreign trade and proper utilization of foreign loans.

Samuelson (1964) has suggested for use of foreign capital in the process of development of developing countries. He has said that, "if there are many difficulties in the way of domestic financed capital formation, why not rely more heavily on foreign sources". He further said, "Doesn't economic theory tellers that a rich country which has used up all its own high interest investment projects can benefit it and at the same time benefit a poor country abroad. If only it will shift investment to the high internal project mot yet exploited abroad."

4.2.6.2 Outstanding External Debt and GDP

While discussing about the burden of public debt, we analyze the trend of outstanding external debt and GDP, and compare between them is necessary, which gives the status of external debt to GDP. Table 5.8 shows the economic growth in terms of GDP and trend in external debt.

Table 4.16

Outstanding External Debt and GDP

Rs. In Million

Fiscal Year	Total Outs.	Annual Growth Rate	GDP	Annual Growth Rate	ED/ GDP percentage
1989/90	36800.9		99702.0		36.9
1990/91	59505.3	61.7	116127.0	16.5	51.2
1991/92	70923.9	19.2	144933.0	24.8	48.9
1992/93	87420.8	23.3	165350.0	14.1	54.9
1993/94	101966.8	16.6	191596.0	15.9	53.2
1994/95	113000.9	10.8	209974.0	9.6	53.8
1995/96	128044.4	13.3	239388.0	14.0	53.7
1996/97	132086.8	3.2	269570.0	11.3	49.0
1997/98	161208.0	22.0	289798.0	6.0	56.4
1998/99	169465.9	5.1	330018.0	15.5	51.3
1999/00	190691.2	12.5	366251.0	11.0	52.0
2000/01	200404.4	5.7	394052.0	7.4	50.1
2001/02	220125.6	9.8	406138.0	3.1	54.2
2002/03	223433.2	1.5	437546.0	7.7	51.1
2003/04	232779.3	4.2	474129.0	8.4	49.1
2004/05	219641.9	-5.6	504101.0	6.3	43.6
2005/06	234805.6	6.9	539813.0	7.1	43.5
Average Annual Growth Rate	13.31	13.3	11.3	21.6	50.1

Observing Table 4.16, we can see the increasing trend of annual growth rate tremendously. The amount of external outstanding debt was Rs. 36800.9 million in 1989/90 and has gone up to Rs. 232779.3 million in 2005/06 with 13.3

percent of average annual growth rate. Its annual growth rate was 61.7 percent in 1990/91 but after than it is declining to 3.2 percent in 1996/97 and then fluctuating and decreased up to -5.6in 2004/05 but increased up to 6.9 percent in 2005/06.But average annual growth rate of GDP was increasing and also diminishing way and it shows also not desirable economic performance because GDP as a pillar of national economy. GDP has increased from Rs. 99702.0 million to Rs. 593983.0 million with 11.3 percent of average annual growth rate under the review period which growth rate is smaller than external outstanding debt. After the multiparty system restoration, the annual growth rate of GDP is not satisfied and become 3.0 percent growth rate in 2001/02 compare with pervious year, which was threatened to national economy.

While compare the increasing trend of external indebtedness to increase in GDP or external debt to GDP was 36.9 percent in 1989/90 and has mounted up to 43.5 percent in 2005/06 with 50.1 percent of average annual rate. This show clearly about the burden of external debt was quite heavy. Table 5.8 also shows the average annual percentage share of external outstanding debt is 50.14 percent of GDP, which may dead to the country to external debt crisis in future. So, external loans have to use for productive sector or think about proper utilization of it.

4.2.6.3 External Debt Flow and Its Annual Servicing

One of the main features of budgetary system in Nepal is deficit budget in which large proportion of it is fulfilled by external loans. This is also proved by the increasing trend of average annual growth rate of external debt by 5.3 percent under the period of study. Here, the ratio of external outstanding debt to GDP has grown up and creating adverse situation in the economy, which requires serious thinking for its solution.

Table shows the comparison between the annual flow of external debt (new borrowing) and annual external debt servicing obligations. Here, the new borrowing external debt was Rs. 5959.6 ,million in 1989/90 and has increased to Rs. 8214.3 million in 2005/06with 5.3 percent of average annual growth rate.

Table 4.17

External Debt Flow and Its Servicing

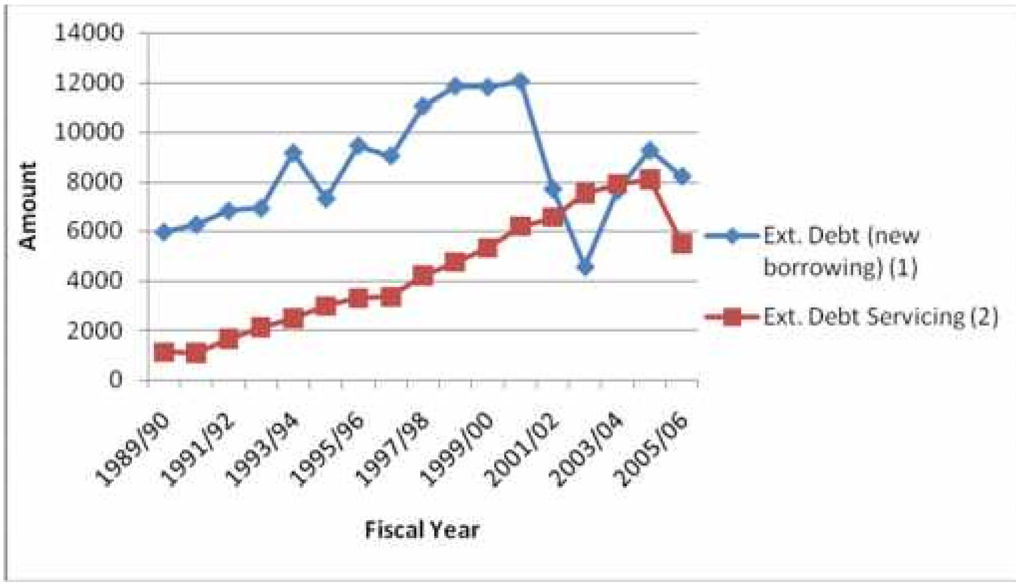
Rs. In Million

Fiscal Year	Ext. Debt (new borrowing) (1)	Ext. Debt Servicing (2)	(2) as percentage of(1)
1989/90	5959.6	1123.6	18.9
1990/91	6256.7	1086.5	17.4
1991/92	6816.9	1664.9	24.4
1992/93	6920.9	2131.9	30.8
1993/94	9163.6	2488.7	27.2
1994/95	7312.3	2984.8	40.8
1995/96	9463.9	3304.3	34.9
1996/97	9043.6	3349.4	37.0
1997/98	11054.5	4201.2	38.0
1998/99	11852.4	4745.5	40.0
1999/00	11812.2	5321.4	45.0
2000/01	12044.0	6201.4	51.4
2001/02	7698.7	6567.5	85.3
2002/03	4546.4	7519.2	165.0
2003/04	7629.0	7908.9	103.7
2004/05	9266.1	8101.3	87.4
2005/06	8214.3	5493.9	66.9
Average Annual Growth Rate	5.3	12.1	53.8

The amount of external debt servicing has increased from Rs 1123.5 million to Rs. 8114.3 million with 5.3 percent of average annual growth rate under the period of study. These indicators threaten about its increasing burden because it is going to destroy not only large proportion of exchange earning but also rather large proportion of new borrowing. Or debt servicing is more than new annual external borrowing or 103.7 percent of new borrowing transfer to the creditor countries to service the external debt per annum, which has been hampered for the purpose of development expenditure.

Figure 4.21

Graphical Presentation of the Proportion of External Debt Servicing to New Borrowing



4.2.6.1 External Debt Servicing, Export Earning and GDP Ratio

Here, the attempt has been discussed about the ratio of external debt servicing to export earning and external debt servicing to GDP. In Nepal, the large proportion of GDP and export earning has transferred or go to back to foreign countries while servicing its foreign debt. Table 5.10 concerns with this matter as following:

Table 4.18

Ratio of External Debt Servicing, export Earnings and GDP

Rs. In Million

Fiscal Year	Ext. Debt Servicing (1)	Export (2)	(l) as percentage of (2)	(l) as percentage of GDP
1989/90	1123.6	5169.9	21.8	1.1
1990/91	1086.5'	7403.3	14.7	1.1
1991/92	1164.9	13725.6	12.1	1.4
1992/93	2131.9	17286.4	12.3	1.4
1993/94	2488.7	19316.0	12.9	1.2
1994/95	2984.8	17680.3	16.9	1.4
1995/96	3304.3	19912.7	16.6	1.4
1996/97	3349.4	22663.1	14.7	1.5
1997/98	4201.2	27540.2	15.2	1.2
1998/99	4745.5	35692.7	13.2	1.2
1999/00	5321.4	49844.7	10.6	1.2
2000/01	6201.4	55676.5	11.1	1.0
2001/02	6567.5	46964.2	14.0	1.6
2002/03	7519.2	49951.2	15.1	1.7
2003/04	7908.9	53910.7	14.7	1.7
2004/05	8101.3	58705.7	13.8	1.6
2005/06	5493.9	59933.7	9.2	1.0
Average Annual Growth Rate	11.2	18.6	14.0	1.3

Table shows the magnitude of export earning was Rs. 5156.9 million in 1989/90 which has mounted up to Rs. 59933.7 million in 2005/06 with the 18.6 percent of average annual growth rate which has increased about 11.59 times under the review of study, where as external debt servicing volume was Rs. 1123.6 million and has increased to Rs. 7908.9 million with 15.7 percent of average annual growth rate but it has decreased and reached to 5493.9 under the period of review.

While discussing about the ratio in percentage of external debt servicing to export earning, its magnitude was 21.8 percent in 1989/90 and has decreasing to 9.2

percent in 2005/06. The average annual rate of this ratio is 14.0 percent under the period of study. The debt servicing-export earning ratio was higher 21.8 percent in 1989/90 and but then this ratio in percentage has not been restored yet.

Similarly, the ratio of external debt servicing to GDP has increased from 1.1 percent to 1.7 percent and again declined up to 1.0 under the period of study and its average annual ratio is 1.3 percent.

4.2.6.5 Outstanding External Debt and Import

Table 4.19 shows the relationship between external debt burden and import payment and their average annual growth rate and the ratio of imports payment to external debt.

Table 4.19

Ratio of External Debt and Import Payments

Rs. In Million

Fiscal Year	Outs. Ext. Debt (1)	Import Payment (2)	(2)as percentage of (1)
1989/90	36800.9	18356.5	49.9
1990/91	59505.3	23255.7	39.0
1991/92	70923.9	31987.0	45.1
1992/93	87420.8	39259.9	44.9
1993/94	101966.8	51628.7	50.6
1994/95	113000.9	63740.4	56.4
1995/96	128044.4	74570.8	58.2
1996/97	132086.8	93661.9	70.9
1997/98	161208.0	89153.8	55.3
1998/99	169465.9	87695.0	51.7
1999/00	190691.2	108624.4	57.0
2000/01	200404.4	115797.0	57.8
2001/02	220125.6	107531.0	48.8
2002/03	223433.2	124542.8	55.7
2003/04	232779.3	136277.1	58.5
2004/05	219641.9	149473.6	68.2
2005/06	234805.6	173780.3	74
Average Annual Growth Rate	13.3	15.7	61.7

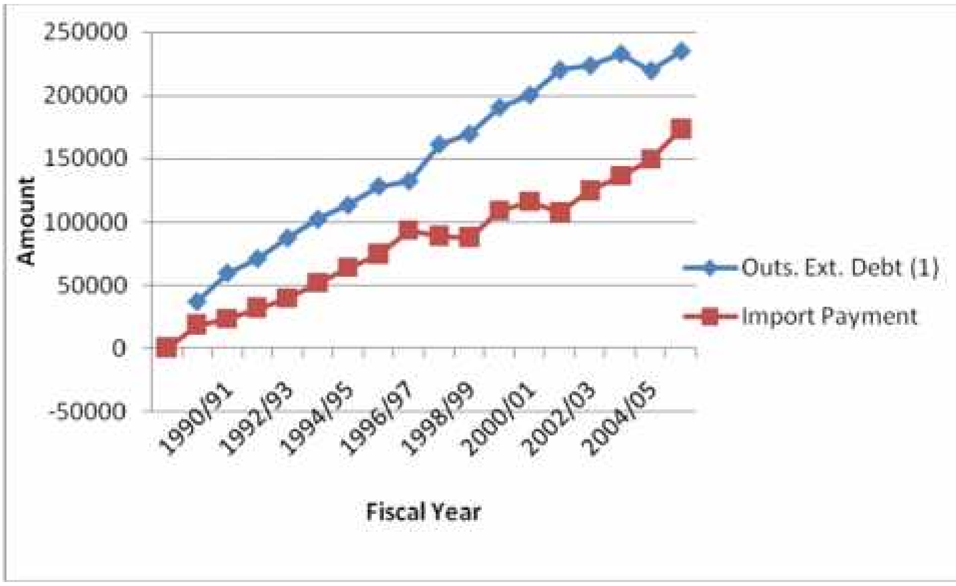
While observing Table 4.19 we can find the increasing trend of external outstanding debt with 13.3 percent of average annual growth rate, which indicates the serious problem of external debt burden of Nepal.

On the other hand, the magnitude of import payment was Rs. 18356.5 million in 1989/90 and has gone up to Rs. 173780.3 million in 2005/06 with 15.7 percent of average annual growth rate. This shows the large proportion of foreign exchange transfers to foreign countries for service import payments of goods and services.

Table 4.19 also shows import payment as percentage of external outstanding debt, which was 49.9 percent in 1989/90. Then its increasing trend shows tremendous and has gone up 70.9 percent in 1996/97, which indicates % portion of external debt has transferred to foreign countries for import payment. This indicators show that purpose of external debt is not going right direction and balance of payments hampered. In 20058/06, import payments as percentage of external debt is 74 percent and its average annual rate is 61.7 percent, which indicates the more than half of external debt has transferred for import payments showing gradual increase in import of goods and services from aboard, which also seriously affects the balance of payment

Figure 4.22

Ratio of Outstanding External Debt and Import Payment



4.2.7 Factors Affecting Public Debt in Nepal

4.2.7.1 Saving-Investment Gap

Nepal is an underdeveloped country and in the development process. For this, the government has to push heavy dose of investment. And on the other hand our domestic resources mobilization is inadequate and insufficient to meet growing needs of investment funds. Then ultimately there has been creating a resource gap which has shown in Table 4.21

Table 4.21

Domestic Saving and Investment Gap (in percentage of GDP)

Rs. In Million

Fiscal Year	Saving (1)	Investment (2)	S-IGap(l-2)
1989/90	7.9	18.5	10.6
1990/91	9.6	20.8	11.2
1991/92	10.8	21.2	10.4
1992/93	13.6	23.1	9.7
1993/94	14.7	22.4	7.7
1994/95	14.8	25.2	10.4
1995/96	13.8	27.3	13.5
1996/97	14.0	25.3	11.3
1997/98	13.7	24.8	11.1
1998/99	13.6	20.5	6.9
1999/00	15.0	24.2	9.2
2000/01	14.7	24.3	9.6
2001/02	12.1	24.2	12.1
2002/03	12.0	26.1	14.1
2003/04	12.4	27.2	14.8
2004/05	11.6	26.5	14.9
2005/06	7.9	26.0	18.1
Average Annual Rate	11.6	24	11.5

Table 4.21 shows the domestic saving and investment as percentage of GDP. Which observing this table, the percentage share of investment to GDP was 18.5 percent in 1989/90 and tremendously has gone up to 27.3 percent in 1995/96 at the highest point and 26.0 percent in 2005/06. Its average annual rate is 24 percent under the period of study.

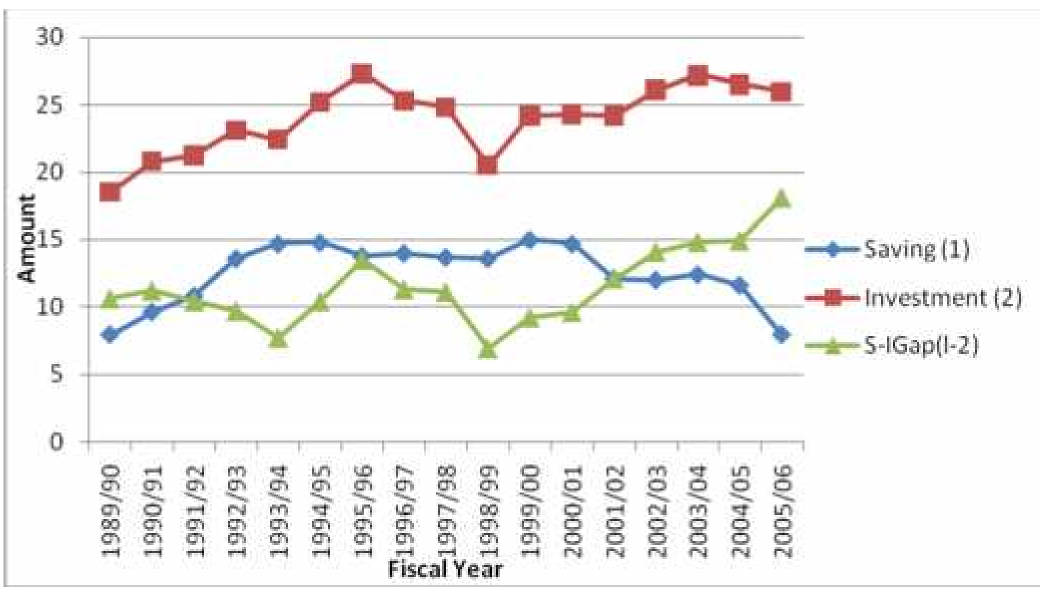
The magnitude percentage share of saving to GDP has tremendously increasing from 7.9 percent to 12.4 percent up to 2003/04 and decline up to 7.9percent under the review period with 11.6 percent of average annual rate. This indicator shows that the increasing trend of investment to GDP is about two times greater than saving.

When investment is greater than saving then create an investment saving gap or resources gap. Table 4.21 shows the resource gap as percentage of GDP, which was 10.6 percent in 1989/90 and has gone up to 18.1 percent in 2005/06, which was the highest resource gap under the period of study and its average annual rate is 11.5 percent.

The above indicators show that the growing rate of investment has outpaced the growing rate of saving to GDP creating resource gap. Then ultimately there has been increasing reliance on foreign assistance to meet growing need of resource gap. That is the main factor affecting public debt in Nepal.

Figure 4.23

Trend of Saving, Investment, and Gap



4.3 Major Findings

Nepal's budgetary system shows the trend of increasing deficit budget or fiscal deficit is wedding year by year. Nepal's revenue collections are limited due to the tax and custom administration not fair, transparent and agile. During the period between 7989/90 to 2005/06 the average annual growth rate of revenue collection and government expenditure is 13.9 percent and 11.6 percent respectively. Although the growth rate of revenue is higher then expenditure, the absolute amount of government expenditure is higher than revenue, which are Rs.110889.2 million and Rs.72282.1 million respectively in 2005/06. These indictors show that widening financial resource gap. In which fiscal deficit increased from Rs.8466.4million to Rs.24779.6 million with 8.35 percent of average annual growth rate under the period of study. And on the other hand, revenue deficit has increased from Rs.10381.8 million to Rs.38607.16 million with 7.9 percent rate average annual rate of revenue deficit and fiscal and deficit as percentage of GDP is 7.8 and 6.0 percent respectively.

Due to the limitation of internal resources mobilization and to fulfill ever growing financial resources gap, dependency of foreign assistance has been increasing. Foreign grants have been increasing. A foreign grant has been increasing. Foreign grants has been increasing from Rs.1975.4 million to Rs.11283.4 million with 19.9 percent of average annual growth rate under the period of study. In the same period the contribution of external loan has gone up from Rs.5959.6 million to Rs.8214.3million with 5.3 percent of average annual growth rate. This shows dependency up on foreign loans and assistance.

The total public debt has been increasing from Rs.8109.6 million to Rs.20048.5 million with 7.2 percent of average annual growth rate. In which share of internal debt has increasing with 17.3 percent average annual growth rate, from Rs.2150.0 million to Rs.11834.2 million. The external and internal debt as percentage of fiscal deficit is 70.9 percent and 25.6 percent in 1989/90 and internal has gone up to 47.8 percent and external is decreased to33.2 percent in 2005/06. This shows the contribution of external loan to fiscal deficit is outpaced the share of internal but the growth rate showing the decreasing trend of external and increasing trend of internal debt as percentage of fiscal deficit. And share of external loans to total loans has been decreasing from 70.9 percent to 33.2 percent under the review period.

Since, government has to invest all sector of economy and limitation of internal resources mobilization, dependency upon foreign assistance has increasing so that the burden of public debt is also increasing. Nepal is indebted by external and internal loans but further more by external outstanding debt. The total outstanding debt has been increasing with 13.3 percent of average annual growth rate, from Rs.514740.0 million to Rs.329516.2 million. In which the share of external outstanding debt has been increasing from 36800.4 million (71.5%) to Rs.234805.6 million (71.3) with the 13.3 percent of average annual growth rate. Similarly, the share of internal has been increasing from Rs.14673.1 million (28.5%) to Rs.94710.6 million (27.7%) with 21.3 percent of average annual growth rate. Nepal is suffering more by burden of external debt then burden of internal debt to total burden of debt.

Due to the increasing trend of burden of debt, the trend of total debt servicing of Nepal is also increasing .total servicing has been increasing ,with 15.0percent of average annual growth rate, from Rs. 2279.2 million to Rs.20423.5 million. In which average annual growth rate of external and internal is 12.1 and 18.9 percent respectively. External debt servicing has been increasing from 1123.6 million to Rs 5493.9 million under the period of study. Similarly the internal debt servicing has been increasing from 1155.6 to Rs. 14929.6million .These indicators show that the increasing growth rate of internal is higher than external debt servicing. Consequently, external debt servicing has become a current issue. And on the other hand, country's revenue and foreign exchange cannot increase in the same pace or country's sources can't meet external debt services payment. There will be need to borrow again external loans for debt servicing seen interested payment that may lead "debt trap" to the economy.

The average annual ratio of debt servicing to total revenue, regular expenditure and GDP have been 14.0 percent , 16.2 percent and 11.3 percent respectively over the period of review. Which shows the burden of internal debt in terms of TR, RE and GDP have considerably over the period. Likewise, the same of annual internal debt servicing in new borrowing has increased from 53.7 percent in 184.0 percent in 1992/93 and to 59.9 percent in 2001/02 and again increased to 168.2 percent in 2003/04 but again decreased to 126.2 under the study period with 94.0 of average annual growth rate. This shows that internal new borrowing cannot meet internal found is using internal debt servicing.

The magnitude of export earning has increased from Rs. 5169.9 million to Rs. 60234.1 million with 18.7 percent of average annual growth rate and import payments has increased from Rs. 18356.5million to Rs. 173780.3million with average annual growth rate 11.3under the period of study. Here, the growth of export is higher than import payments but trade deficit to GDP has increased 21.0 percent From 12.8 percent.

During the period of study between 1989/90 to 2005/06, the percentage of total investment of GDP has been increasing from 18.5 percent to 26.0 percent with 24.0 percent of annual growth rate. Likewise, the saving to GDP has been increasing from 7.9 percent to 15.0 in 1999/2000 percent but it has decreased to7.9 percent with11.6 percent of average annual rate. These indicators shows that investment saving gap has been widening and the percentage of I-S gap to GDP has increasing 11.5 percent of average of annual rate. This shows investment domestic saving gap is increasing rapidly which needs foreign assistance to bridge such gap.These all factors contributed to increases external dependency.

During the period of study between 1989/1990 to 2005/06 the average annual growth rate of GDP revenue are considerably low as compared with that of debt and its servicing obligation. So we are going to be entrapped in the debt not only, but also we can not escape ourselves from the terrific in debtless, if no effective programmed is set within time to carry out for financing economy.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The successive governments that came into existence after the people's agitation 1990 have superfluously claimed to achieve miraculous development in Nepal. But truth is just the opposite. The international comparisons of macro economic indicator show that Nepal's position is extremely counterpale. Nepal is facing the problem of financing ever-increasing resources gap because government expenditure is increasing rapidly, but government revenue is not increasing in the same pace. The widening resources gap in the recent years has made the cumulative effect of the deficiencies in the investment areas and the continued absence of government's fiscal norms.

One the most important objectives this study is to examine the effect of public debt on the output and for this empirical relationship between public debt and aggregated GPD is made. Analyzing the relationship, it is found that total public debt has, not impact in GDP growth of Nepal. But the empirical results suggest that total public debt has contributed positively in total agriculture and Non-agriculture GDP. Hence it is positively contributing to the growth of national output.

The landlocked nature and mountainous topography are the major constraints for development of Nepal. Economically Nepal is backward and its economic performance is not satisfactory. Now Nepal is facing an acute resource gap problem which is also being expected to grow in coming years. Nepal is demanding more and -ore financial resources through public debt to bridge the growing resource gap in budget. The capital generating by internal resources mobilization is one of the complex task in Nepal. The government expenditure is increasing rapidly in each and every year but the revenue is not growing in same pace. So, Nepalese economy has been passing through a critical phase of inadequate financial resources. But public funds availability for filling up the resource gap are limited. Therefore, government adopts the policy of borrowing internally and externally.

Almost developing countries like Nepal, the external borrowing increasing more rapidly rather than internal borrowings. Debt servicing obligations are also increasing rapidly but debt servicing capacity of the country has not been increasing *with* the same pace. Therefore Nepal is in early stage of development the widening resource gap itself would not have been 2 matter of serious concern, if it was related to-.grow and investment leading to capacity expansion in the economy but the situation has been quite adverse.

So, it is necessary to know the patterns and quantity of public debt (external and internal) as a major source of finance for development activities. This small study is attempting to investigate the pattern of public debt in Nepal. A brief theoretical perspective has also been taken into consideration white studying public debt and its ratio with GDP, revenue, total expenditure* outstanding debt and debt servicing etc from the year 1989/90 to 2005/06.

Internal public 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. The domestic resources are not sufficient to promote the rapid development of the Nepalese economy. The external assistance plays all obvious functions in the development forces for financial resources. Concerning foreign assistance grants have a big role to play in solving the resource gap in the countries budgetary expenditure.

Now, Nepal is indebted by external and internal loans but further more by external outstanding debt. Consequently external debt servicing has become a current issue. In the context of Nepalese economy question may arise whether our country's revenue and foreign exchange availability can sustain the increasing external debt service payment or not. If our country's sources can't meet external debt service payment there will be need to borrow again external loans for debt servicing in "Debt for Debt servicing Trap".

Due to the poor and insufficient domestic resources, dependency on foreign assistance has been increasing rapidly. It is necessary to bridge the growing fiscal deficit and to improve most essential capital goods for developments projects.

Now, Nepal is indebted by external and internal loans but further more by external outstanding debt. Burden of public debt and debt servicing has been increasing continuously which is in fact the accumulation of net borrowing of different years. The external outstanding debt is Rs. 234805.6 million only in 2005/06.

Consequently, external debt servicing has become a current issue. In this context question may arise whether Nepal can sustain or not in the alarming increasing in debt servicing obligations. If our country's sources can't meet external debt service payment there will be need to borrow again external loans for debt servicing in "Debt for Debt servicing Trap"

5.2 Conclusion

The system of internal 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 sectors of the country economy. Poor mobilization of internal resources is the main cause for the dependency upon foreign assistance. There has been excessive flow of foreign loan to bridge up the resource gap. We can see substantial increases in the foreign debt over the past years which lead to increasingly heavy dependency on foreign loan.

The total debt and the total debt service obligation are increasing rapidly in each year but debt servicing capacity is not increasing in the same place. During the review period average annual growth rate of GDP revenue and export earning are considerably low age compared with the debt and debt servicing obligation. This shows our debt servicing capacity is very poor to sustain increasing debt servicing obligation.

The businessman, student and retired person are less interested to purchase the government securities rather profitable investment opportunities. The higher income group people are less interested to purchase the government securities (i.e. risk less securities) because they think that to invest in risky securities is a prestige in the society. Similarly, the people of rural area are less aware towards the government securities due to lack of effective information and the people whose academic background are economics, finance, management and commerce are more towards the government securities due to the appropriate and essential knowledge about government securities from their subject.

5.3 Recommendations

On the basis of above finding the following recommendations are suggested to address the public debt situation in Nepal.

- The size of revenue collection is very low and expenditure is very high which creates fiscal imbalance. To minimize this problem, the govt., expenditure has to be controlled and allocated the basis of national priority so that productivity may increase within stipulated time period. And for maximizing revenue collection, govt. should adopt transparent and effective tax policy and improving tax administration, which helps to reduce dependency on loans for financing development expenditure.

- Debt crisis must rely on both internal and external factors. Gradually over the years, Nepal's stock of outstanding foreign debt and its debt servicing obligations have risen but the addressing capacity for redemption; the debt is not increasing in the same pace. In this prospective, some recommendation are proposed to mitigate the pain and adverse effects of ever increasing debt in Nepal.
- The internal borrowing mobilizing for development purpose has come from banking sector and about 50 percent of it is owned by Nepal Rastra Bank, which creates inflation. So the govt, should initiate policies to attract maximum borrowing from non banking sector and there should be put legal ceiling on govt, overdrawing from the central bank. The govt, also issues development bonds and national saving certificates with discount rate and with some additional attraction and concessions to breakout inflationary situation.
- Foreign loan and assistance should be utilized selectively after careful scrutiny of the purpose, content and benefits of such projects and programmes in order to reduce the burden of external debt which contributing to accelerating growth and meeting socio-economic objectives.
- The government should maintain balance between expenditure and revenue, developing country like Nepal where private sectors are still under developed. The government should adopt appropriate economic policy. The government should give attention in all sectors of the economy with high economic growth rate by reducing excessive external dependency and internal resource

mobilization for the development purpose. And the economy will be capable to move in a self- sustaining growth path.

- The annual growth rate of GDP, per capita GDP, national saving and investment are still very low but the population has been increasing very fast. Besides even such infrastructure facility on transport, irrigation, education and health have failed to develop adequately. These are some of the factors responsible for the operation of the vicious of poverty in Nepal.
- The growth rate of investment is increasing and the rate of domestic saving is not increasing in the same pace and is also increasing investment domestic saving gap. Thus there is a need to reduce such gap by increasing the rate of total domestic saving through transparent and effective tax policy and improving tax administration.
- Privatization of govt, enterprises should be accelerated and the revenue received from privatization should be utilized as the debt equity swap strategy for debt relief.
- Trade deficit is the main feature of foreign trade of Nepal. For this there is need to export promotion and diversifying trade both country wise and commodity wise. And there should be controlled to import luxuries goods and services by adopting suitable import policy and reduce huge trade deficit by promoting the export oriented industries.
- Export promotion also helps to correct the balance of payment which helps to save foreign exchange and help reducing the dependency upon external borrowing which more essential for an extremely indebted country like Nepal. So, for export promotion, the govt, should be give special privilege to private entrepreneurs, which are engaging in the export businesses. And imports substitution industries should be encouraged but capital goods import should not be restricted.

- Borrowed fund from external sources must be spent on these projects which are of highly productive nature and can produce exportable items and there projects are to be kept under constant supervision and monitoring process..
- The government should try to get grants amount more and more as far as possible. But it also should maintain such an external policy. So that more of grants should be reviewed rater than loans.
- The net internal borrowing and GDP ratio should be maintained and government borrowing from t r should also be limited and aviability of resources to the private sectors should be ensure to purse necessary investment.
- Investment is regarded as a prime factor to increase the level of production, which is only possible through increasing the saving. In order to rise the present saving –GDP ratio, is necessary to create favorite environment. Nepal economy is passing through huge domestic saving-investment gap due to mismatch between growth rate of saving and investment. Thus, there is need to reduce such gap by increasing the rate of total domestic saving.
- The level and direction of export is limited in few product and a few countries. Emphasis should given on speeding up the growth of export and diversifying trade both country wise and commodity wise. There is need to formulate long term plan for export promotion and also coordinates various related activity such as product development, market promotion, export stabilization, quality improvement, export diversification etc. it will help to minimize huge trade defect by promoting the export-oriented industries and there by narrowing the ever-increasing gap between total export and import.
- To increase the debt servicing capacity government should increase GDP growth, revenue growth and export earning growth in sustainable path so

that country will not be trapped on debt servicing problem and, proper attention should be given to macro- economic stability of the country while accepting short-term and long-terms loans.

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