IMPACT OF PUBLIC FINANCE ON NEPAL'S ECONOMIC GROWTH RATE

A Dissertation submitted to the Office of the Dean, Faculty of Management in partial fulfillment of the requirements for the Master's Degree

By

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CERTIFICATION OF AUTHORSHIP

I affirm that I have thoroughly researched and submitted the conclusive version of my dissertation titled "Impact of public finance on Nepal's economic growth rate". This dissertation has not been previously presented for degree conferral, nor has it been suggested or showcased for any other academic purposes. I acknowledge the support and collaboration I received during the research process. Furthermore, I confirm that all information sources and literature utilized in the dissertation are appropriately cited in the reference section.

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July, 2025

REPORT OF RESEARCH COMMITTEE

Mr. Ram Bahadur Bist has defended research proposal entitled **"Impact of Public Finance on Nepal's Economic Growth Rate"** successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestion and guidelines of supervisor Jhabindra Pokharel to submit the thesis for evaluation and viva-voce examination.

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APPROVAL SHEET

We, the undersigned, have examined the dissertation entitled **"Impact of Public Finance on Nepal's Economic Growth Rate"** presented by Ram Bahadur Bist candidate for the degree of Master of Business Studies (MBS Semester) and conducted the Viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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ABBREVIATIONS

ABDB	=	Asian Development Bank
CCR	=	Canonical Cointegrating Regression
CPI	=	Consumer Price Index
EDR	=	External Debt Ratio
FMOLS	=	Fully Modified Ordinary Least Squares
GCFR	=	Gross Capital Formation Ratio
GDP	=	Gross Domestic Product
GCF	=	Gross Capital Formation
IDR	=	Internal Debt Ratio
IMF	=	International Monetary Fund
IRR	=	Inflation Rate Ratio
MPC	=	Marginal Propensity to Consume
MSME	=	Micro, Small, and Medium Enterprises
NB	=	National Bank of Ukraine
NEPSE	=	Nepal Stock Exchange
NRB	=	Nepal Rastra Bank
NSO	=	National Statistics Office
OLS	=	Ordinary Least Squares
PGR	=	Population Growth Ratio
PSA	=	Philippine Statistics Authority
RGDP	=	Real Gross Domestic Product

ABSTRACTS

This study investigates the dynamic relationship between public finance variables and Nepal's economic growth rate over the decade spanning fiscal years 2014/15 to 2023/24. Anchored in causal-comparative research design and employing secondary data from Nepal Rastra Bank and other official sources, the research assesses how internal debt, external debt, gross capital formation, inflation rate, and population growth rate interact to influence real gross domestic product (RGDP) as a proxy for per capita income. Using statistical tools such as descriptive analysis, Pearson correlation, multiple regression, and ANOVA testing, the study reveals that internal debt and gross capital formation positively contribute to economic growth when managed efficiently, while external debt and inflation exhibit a dampening effect. The population growth rate shows a moderate but statistically insignificant relationship with RGDP, highlighting the need for labor-market-aligned demographic planning. With a regression model explaining 96.1% of GDP variation, the findings emphasize the importance of targeted fiscal strategies, sound debt management, and capital productivity for sustained economic development. The research offers valuable implications for policymakers, financial analysts, and development planners seeking to optimize fiscal tools for inclusive growth in Nepal.

***Keywords**:* Public Finance, Economic Growth, Monetary Management

CHAPTER-I
INTRODUCTION

1.1 Background of the study

Nepal's economic growth trajectory has shown steady improvement in recent years, with the real GDP growth rate projected to reach approximately 4.61% in fiscal year 2024/25, up from 3.67% in the previous year, reflecting a gradual recovery from pandemic-related disruptions and other structural challenges (Prasain, 2025; Burlakoti, 2025). The size of Nepal's economy is estimated to reach around Rs 6.17 trillion, with per capita GDP rising to about \$1,496, signaling enhanced production capacity and income levels (Prasain, 2025; National Statistics Office, 2025). Despite these positive trends, the growth rate remains below the government's initial target of 6%, indicating persistent constraints in the economic environment. Public finance plays a pivotal role in this context, acting as both a driver and a constraint on Nepal's economic growth.

At the international level, the relationship between public finance and economic growth is complex and context-dependent. Empirical studies reveal that productive government expenditure, particularly investments in infrastructure, education, and health, significantly boosts long-term growth by enhancing human capital and facilitating private sector development (Afonso & Jalles, 2023). However, excessive public debt, especially when surpassing critical thresholds (often cited around 90-100% of GDP), can crowd out private investment, increase borrowing costs, and ultimately depress growth (Reinhart & Rogoff, 2024). The quality and efficiency of fiscal management also determine the growth impact of public finance, with well-governed fiscal systems promoting sustainable development, while inefficiencies and corruption undermine growth prospects (IMF Fiscal Monitor, 2024). Inflation, often influenced by fiscal imbalances, further complicates this relationship; moderate inflation may coexist with growth, but high inflation typically erodes purchasing power and investment incentives (Barro, 2023).

In Nepal's case, public finance has contributed positively to economic growth, but with notable caveats. Internal and external public debt have financed critical infrastructure

projects, hydropower expansion, and social services, which are key growth drivers. Recent empirical evidence suggests that a 1% increase in internal and external debt correlates with approximately 0.12% and 0.17% increases in real GDP, respectively, provided that the funds are allocated efficiently to productive sectors (Shrestha & Paudel, 2024). However, Nepal's public debt has approached 40% of GDP, raising concerns about fiscal sustainability and the risk of debt overhang that could hamper future growth (World Bank, 2025). Inflationary pressures, although easing to around 5% in the first half of FY25 from 6.5% the previous year, still pose challenges, particularly with food inflation remaining elevated at 7.5%, which can dampen consumption and investment (World Bank, 2025).

Trade openness and credit availability also influence Nepal's growth dynamics. While trade facilitates technology transfer and market expansion, Nepal's landlocked geography imposes logistical constraints that limit full integration into global value chains (Naveed & Shabbir, 2006). Access to credit, especially for the private sector, remains critical for stimulating entrepreneurship and investment, echoing Schumpeter's (1912) emphasis on credit's role in economic development. Empirical studies in Nepal confirm that improved credit access enhances private investment and growth, underscoring the need for financial sector reforms (Perera & Paudel, 2009; Shrestha, 2005). Nepal's economic growth is influenced by a complex interplay of public finance variables, macroeconomic factors, and structural constraints. The country's growth rate of approximately 4.5-4.6% in FY25, while an improvement, remains below potential due to challenges such as inflation, fiscal sustainability risks, and infrastructural bottlenecks (Prasain, 2025; World Bank, 2025). To sustain and accelerate growth, Nepal must prioritize efficient allocation of public resources, strengthen fiscal governance, and maintain macroeconomic stability. Aligning public finance strategies with structural reforms and enhancing private sector-led growth will be essential to leveraging Nepal's economic potential in the coming years.

From 1996 to 2025, Nepal's public finance has undergone significant transformation. Total government expenditure has risen from around Rs 41.2 billion in FY1996 to an estimated Rs 1,842 billion in FY2025, reflecting expanding fiscal responsibilities. Revenue mobilization also improved during this period, increasing from Rs 26.1 billion in FY1996 to

approximately Rs 1,390 billion in FY2025, with tax revenue forming a major component. The fiscal deficit, which stood at about 3.6% of GDP in the late 1990s, has fluctuated over the years, influenced by internal conflict, reconstruction needs, and economic shocks, and is projected to hover around 4.5% of GDP in FY2025. Public debt, both domestic and external, has grown in volume—rising from below 30% of GDP in the early 2000s to around 40% of GDP in 2025. Development expenditure has consistently focused on sectors like infrastructure, education, health, and social protection, although execution capacity has often lagged behind allocation. These trends underscore the evolving nature of Nepal's public finance and its pivotal role in shaping the country's economic growth.

Over the years, Nepal's public finance has seen major changes, growing from around Rs 41 billion in spending in the mid-1990s to nearly Rs 1,842 billion by FY2025. Government revenue has also grown, giving the country more room to invest in vital sectors like infrastructure, education, and health. But even with more funds coming in, the fiscal deficit the gap between what the government spends and earns has continued to be a concern. Debt levels have risen steadily too, with domestic and foreign borrowing helping cover development needs but raising questions about long-term sustainability. Often, the government allocates large budgets, but the actual use of funds falls short, slowing down progress. This mismatch between planning and implementation weakens the full impact of public finance on economic growth. Inflation and rising prices also create pressure, making it harder for people to keep up with living costs and discouraging private investment. Despite these hurdles, public finance remains a key driver of Nepal's development story. This study aims to understand how government spending, debt, and revenue affect per capita income and help shape the country's overall economic path.

1.2 Problem Statement

Public finance plays a crucial role in shaping economic growth, particularly in developing economies like Nepal, where government expenditure, taxation, and fiscal policies significantly influence GDP performance (Khadka, 1991). However, despite Nepal's persistent efforts to stimulate growth through public spending and financial sector reforms, its economic expansion remains sluggish and volatile (World Bank, 2022). While existing

literature acknowledges the theoretical linkages between fiscal policy and GDP growth, empirical findings on the strength and direction of this relationship remain inconsistent, especially in Nepal's unique economic context (Jain et al., 2015; Liu, 2018).

Nepal's fiscal structure faces several constraints, including inefficient tax collection, high dependency on foreign aid, and disproportionate allocation of public funds toward recurrent expenditures rather than productive investments (ADB, 2021). These inefficiencies raise critical questions about whether current fiscal policies are effectively translating into sustainable economic growth. Furthermore, studies on other developing economies suggest that excessive public debt and misallocation of resources can crowd out private investment, thereby stifling GDP growth (Barro, 1995). Yet, Nepal's case remains underexplored, particularly in terms of how its fiscal imbalances—such as budget deficits and public debt accumulation—impact long-term growth prospects.

Additionally, Nepal's financial sector development, including banking liquidity and credit accessibility, interacts with public finance in ways that may either amplify or hinder economic expansion (Schumpeter, 1912; Perera & Paudel, 2009). While some studies argue that increased domestic credit to the private sector can enhance productivity (Shrestha, 2005), others highlight that fiscal dominance where government borrowing distorts financial markets can lead to inefficiencies (IMF, 2020). Given Nepal's reliance on remittance-driven liquidity and its underdeveloped capital markets, the interplay between public finance and financial intermediation warrants deeper investigation. Based on the above problem statement, following research questions have been forwarded.

1. What has been the historical trend of Nepal's economic growth rate and public finance indicators during the study period?
2. Is there a significant relationship between economic growth rate and public finance in Nepal?
3. To what extent does public finance influence Nepal's economic growth rate?

1.3 Objectives of the study

The general objective of this study is to examine the relationship between gross domestic product (GDP) and public finance in Nepal.

1. To identify the trend of economic growth rate and public finance during the study period.
2. To analyze the relationship between economic growth rate and public finance.
3. To examine the impact of public finance on economic growth rate of Nepal.

1.4 Rationale of the Study

The research findings hold significant implications for various stakeholders. Investors, for instance, can leverage this research to assess and forecast GDP movements based on macroeconomic indicators, enabling them to make informed decisions and construct more robust portfolios. Policymakers, too, can benefit by utilizing this research as a foundation to update current policies and shape future ones, ultimately fostering the welfare of investors through well-informed rules and regulations. Additionally, academics and other readers can utilize this research to comprehend the influence of macroeconomic variables on Nepal's GDP. Researchers seeking references for related topics can also find value in this study. Notably, given the limited number of studies conducted in Nepal on this subject, this research aims to contribute to a deeper understanding of the impact of real money supply, interest rates, inflation rates, and exchange rates on GDP. It seeks to enhance the existing body of literature pertaining to the correlation between macroeconomic variables and GDP in Nepal.

1.5 Limitation of the Study

1. This study was conducted in a limited period of time and is solely dependent on secondary data.
2. The validity of the data released by Nepal Rastra Bank determines the study's conclusions.
3. Although there are many variables, this study just takes a small number of them into account.

CHAPTER II
LITERATURE REVIEW

A crucial component of a dissertation is the literature review, which offers a thorough summary of all the information currently known on the subject of the study. By combining earlier research, pointing out knowledge gaps, and demonstrating the necessity of the current study, it creates the theoretical framework and setting for the study.

2.1 Theoretical Review

2.1.1 Ricardian Equivalence

The Ricardian equivalence theory, originally proposed by British economist David Ricardo in the 19th century, suggests that government expenditures must ultimately be funded through taxation, either immediately or at a later time. This theory assumes that individuals are rational and forward-looking consumers who recognize that debt-financed government spending will lead to higher taxes in the future to repay that debt. Consequently, efforts to boost the economy by increasing government spending through borrowing may be ineffective because consumers and investors anticipate the future tax liabilities. This anticipation influences private saving behavior; for example, when the government runs a deficit, people tend to save more now in expectation of future tax increases, whereas a budget surplus may encourage less saving due to the expectation of lower future taxes (Gottfries, 2013). This concept was later formalized by economist Robert Barro, who incorporated rational expectations and the lifetime income hypothesis to show that government financing through debt or taxes has equivalent effects on aggregate demand, as private saving adjusts to offset government fiscal actions.

2.1.2 Keynesian Economic Theory

The Keynesian Economic Theory, introduced by John Maynard Keynes in 1936 through his seminal work The General Theory of Employment, Interest, and Money, challenged the classical view by advocating for active government intervention to stimulate demand during economic downturns, particularly in response to the Great Depression. Keynes emphasized that aggregate demand, influenced by both private and public sector decisions, plays a crucial

role in determining output and employment levels. He argued that prices and wages are often sticky, adjusting slowly to changes in supply and demand, which can cause labor market imbalances. Therefore, increases in consumer spending, government expenditure, investment, and exports are essential to boost economic output and reduce unemployment. This theory marked a significant departure from laissez-faire policies, promoting fiscal and monetary measures to manage economic cycles and stabilize the economy (Keynes, 1936; see also recent analyses in economic literature, e.g., FasterCapital, 2025)

2.1.3 Keynesian Multiplier

The Keynesian multiplier concept explains how an initial rise in private consumption, investment, or net government spending leads to a more than proportional increase in gross domestic product (GDP), amplifying total economic output beyond the original expenditure. This occurs because the initial spending generates income for recipients, who then spend a portion of that income, creating successive rounds of consumption and income generation throughout the economy. The size of the multiplier depends on the marginal propensities to withdraw from the circular flow of income-namely savings, taxes, and imports. It is commonly calculated as the reciprocal of the sum of these marginal propensities or, more simply, as $1-\text{MPC}$ $1-MPC$, where MPC is the marginal propensity to consume. For example, if the MPC is 0.8, the multiplier equals 5, meaning each dollar spent results in a five-dollar increase in GDP. While the multiplier highlights the potential effectiveness of fiscal policy in stimulating economic growth, especially during recessions, its impact can be diminished by leakages and is subject to debate concerning long-term effects such as inflation, rising public debt, or crowding out private investment. Recent economic analyses continue to affirm the multiplier's relevance but emphasize that its magnitude varies with economic conditions and policy design (Corporate Finance Institute, 2023; EcoNinja, 2025; Tutor2u, 2024)

2.1.4 Fiscal Theory of the Price Level

The objective of maintaining price stability in public policy raises two fundamental questions: how to achieve it and how much stability is desired, as noted by Christiano and Fitzgerald (2000). The traditional monetarist view holds that central banks must be firmly

committed to controlling the money supply to maintain price stability. In contrast, the Fiscal Theory of the Price Level (FTPL) argues that price stability depends on the coordination of both monetary and fiscal policies, emphasizing fiscal solvency as the key determinant of the price level. According to FTPL, the price level adjusts to ensure that the real value of government debt equals the expected present value of future primary surpluses, meaning that inflation is driven by fiscal policy decisions rather than solely by money supply changes (Fan et al., 2016; Bassetto, 2008). Empirical support for FTPL includes explanations of episodes like Brazil's high inflation in the late 20th century (Tanner and Ramos, 2003). However, critics such as John H. Cochrane argue that FTPL suffers from an identification problem, as fiscal policy is typically exogenous and inflation merely acts as a mechanism to restore fiscal solvency, raising questions about causality (Cochrane, 1998; 2001; 2005). More recent analyses reinforce that inflation under FTPL is closely tied to government debt dynamics and fiscal confidence, with central banks unable to control inflation independently if fiscal policy is not credible, highlighting the intertwined nature of fiscal and monetary policy in determining price levels (Flossbach von Storch Research Institute, 2023; Richmond Fed, 2022; IMF, 2019). Nonetheless, some models challenge the universal applicability of FTPL, suggesting indeterminacy in price levels when accounting for more realistic demographic and economic structures (Farmer and Zabczyk, 2019).

2.1.5 The Quantity Theory of Money

The Quantity Theory of Money explains the relationship between the money supply and the overall price level in an economy, asserting a stable and predictable connection between these variables. It is commonly expressed by the equation $MV=PT$, where M represents the quantity of money, V is the velocity of money circulation, P stands for the price level, and T denotes the total number of transactions or output in the economy. The theory, originally proposed by David Hume and later developed by Milton Friedman as a foundation of monetarism, assumes that the velocity of money is relatively constant in the short run. Under this assumption, any increase in the money supply (M) leads to a proportional increase in the price level (P), implying the neutrality of money and that inflation results from excessive growth in money supply. For example, if the marginal propensity to consume remains stable and velocity does not change, doubling the

money supply would double the price level, causing inflation. This theory provides a framework for understanding how monetary policy influences inflation and price stability, emphasizing the importance of controlling money supply to manage inflationary pressures.

2.2 Empirical Review

Bhattarai (2025) explored the relationship between government expenditure in the agriculture sector and its effect on Nepal's economic growth, with a particular focus on how such spending influences the sector's contribution to the national GDP over an eighteen-year period. The study's objective was to critically assess the adequacy and effectiveness of government investments in agriculture, considering their potential to drive economic development and structural transformation. Employing a quantitative research design, the study analyzed secondary data sourced from Nepal's economic survey reports, covering fiscal years 2005/06 to 2023/24, and compared the contributions of both agriculture and non-agriculture sectors to GDP. The findings revealed a marked and statistically significant decline in agriculture's share of GDP, which fell from 32.37% in 2005/06 to just 21.18% in 2023/24, suggesting that agriculture's relative importance in the economy has diminished over time. This trend was explained by several factors, including increased mechanization, a shift of labor from rural to urban areas, and the rapid growth of manufacturing, services, and technology sectors that have begun to dominate economic activity. The study concludes that, despite ongoing government expenditure, the agricultural sector faces persistent challenges that limit its growth and contribution to the economy, underscoring the need for more strategic, targeted investments and policy interventions to foster sustainable and inclusive agricultural development in Nepal.

Mustafa and Abdullahu (2024) provide a comprehensive longitudinal analysis of fiscal policy impacts in the Western Balkans and Croatia from 2002 to 2021, capturing both post-conflict recovery and EU accession periods. Their sophisticated econometric approach combines OLS regression with Granger causality tests to disentangle the complex relationships between public expenditures, FDI inflows, and GDP growth. The remarkably high coefficient for public spending (0.736) not only confirms Keynesian multiplier effects but also suggests particularly efficient expenditure allocation in these transitioning economies. The smaller yet

statistically significant FDI coefficient (0.0589) reveals an interesting dynamic - while foreign investment contributes to growth, its impact is moderated by structural factors like underdeveloped financial markets and bureaucratic inefficiencies. The extraordinary explanatory power (R^2=0.91) of their model likely stems from including governance quality indicators, highlighting how institutional factors amplify fiscal policy effectiveness. These findings carry profound implications for EU enlargement policies, suggesting that pre-accession fiscal transfers could significantly accelerate economic convergence.

Aisyah et al. (2024) present a nuanced, multi-method investigation of Indonesia's fiscal policy evolution, combining quantitative analysis of macroeconomic data with qualitative assessment of policy documents from 2000 to 2023. Their research reveals how infrastructure spending creates dual benefits - directly stimulating GDP through construction activity while indirectly enhancing long-term productivity through improved connectivity. The detailed quarterly GDP analysis during the COVID-19 crisis (showing an 8.29% contraction followed by 1.83% recovery) provides compelling evidence of fiscal policy's stabilizing role, particularly when comparing Indonesia's performance to less interventionist economies in the region. The study innovatively links sectorial expenditure patterns to human development outcomes, demonstrating how health and education spending during the pandemic mitigated what could have been even steeper economic declines. This research significantly advances our understanding of fiscal policy in archipelagic developing nations facing unique logistical challenges.

Nuţ ă, Lupu, and Nuţ ă (2023) offer a groundbreaking contribution to the education economics literature through their sophisticated ARDL modeling approach applied to post-communist EU members. By incorporating structural breaks corresponding to EU accession dates and financial crises, their analysis captures the non-linear evolution of education spending impacts. The striking cross-country variation - from Hungary's strong positive returns (1.421% GDP boost per 1% spending increase) to Latvia's negative outcomes (-1.488%) - suggests that institutional context matters more than absolute spending levels. Their findings challenge conventional human capital orthodoxy by showing that education quality and labor market alignment outweigh mere expenditure quantities. The study's most

provocative insight reveals that during early transition periods, education spending often showed negative returns, possibly due to mismatches between outdated curricula and emerging market needs. These results have profound implications for EU cohesion policy and educational reform in transitioning economies.

Ho, et al. (2023) present a masterful empirical dissection of the tax-growth nexus across 29 developing economies from 2000-2020, employing a battery of advanced econometric techniques including threshold regression analysis. Their finding that tax revenue boosts growth (coefficient = 0.0691) while controlling for institutional quality provides robust support for the "fiscal capacity" hypothesis. The study's most innovative contribution lies in its nuanced treatment of trade openness - demonstrating an inverted U-shaped relationship where moderate openness enhances tax effectiveness but excessive integration diminishes it. The negative interaction term (TR*OPEN_2 = -0.0022) suggests that beyond certain thresholds, trade liberalization may erode tax bases through heightened competition and profit shifting. These insights carry significant policy relevance for developing countries navigating global trade agreements, suggesting the need for careful sequencing of trade and tax reforms.

Nhemhafuki (2023) investigated an ambitious global comparative study spanning 117 countries over two decades (2001-2021), employing rigorous panel data techniques to isolate the growth effects of government expenditure. The positive coefficient (≈0.205) remains remarkably consistent across model specifications, suggesting genuine fiscal multipliers rather than statistical artifacts. The study makes several methodological advances by: (1) distinguishing between productive and unproductive expenditures, (2) controlling for debt sustainability thresholds, and (3) incorporating governance interaction terms. The finding that population growth and trade openness also positively correlate with GDP growth provides a more holistic understanding of development drivers. Particularly noteworthy is the research's demonstration that fiscal effectiveness increases with institutional quality, helping explain why similar expenditure levels yield different outcomes across countries. These results substantially inform contemporary debates about the role of government in development.

Akoley, et al. (2022) investigated a rigorous empirical investigation into Ghana's public financial management system and its macroeconomic impacts from 2000-2019. Their study employed a sophisticated methodological approach combining descriptive trend analysis with multivariate regression modeling using Ordinary Least Squares (OLS) estimation. The research specifically examined three critical variables: government expenditure patterns, revenue collection efficiency, and exchange rate fluctuations. The econometric results demonstrated statistically significant positive coefficients for both fiscal variables (expenditure and revenue), supporting the hypothesis that sound public financial management serves as a catalyst for economic expansion in developing African contexts. Notably, the study revealed that exchange rate stability plays a moderating role in enhancing fiscal policy effectiveness. The authors conclude with policy recommendations emphasizing institutional strengthening of Ghana's fiscal governance framework, particularly in budget execution and revenue administration, as essential prerequisites for sustaining the observed growth momentum.

Upadhyaya and Pun (2022) present a comprehensive time-series analysis of Nepal's public debt dynamics spanning four decades (1978-2020), offering important insights for debt-dependent developing economies. Utilizing an unrestricted Vector Auto Regression (VAR) framework with Granger causality testing, the researchers challenged conventional debt-growth theories by finding no statistically significant causal relationship, despite Nepal's debt-to-GDP ratio (41%) exceeding established optimal thresholds. The study's innovative methodological approach accounted for structural breaks corresponding to major political transitions and natural disasters. Their counterintuitive findings suggest that debt-financed growth strategies require more nuanced implementation than previously assumed, with the authors proposing a "fiscal quality threshold" hypothesis where institutional capacity and expenditure efficiency may matter more than absolute debt levels. The research carries significant implications for international financial institutions advising debt management policies in least developed countries.

Abbas, et al. (2022) break new ground in financial economics through their comprehensive 44-country panel study (1995-2018) examining the dual impacts of financial development on

growth and inequality. Their innovative application of panel ARDL and VEC-based Granger causality techniques revealed several important findings: financial sector development follows an inverted U-shaped relationship with income inequality, while demonstrating linear positive effects on economic growth. The study makes significant theoretical contributions by reconciling conflicting views in the literature, showing that financial development's distributional consequences evolve non-linearly while its growth benefits remain consistent across development stages. The authors propose a novel "financial institutional quality threshold" framework that helps explain why similar financial reforms produce divergent outcomes in different country contexts, offering valuable insights for policymakers balancing growth and equity objectives.

Dhungel's (2021) meticulous study of Nepal's fiscal policy constitutes one of the most comprehensive longitudinal analyses of government expenditure effectiveness in South Asia. Covering three decades of data (1990/91-2019/20) with advanced econometric techniques including unit root testing and multiple regression analysis, the research provides robust empirical support for Keynesian fiscal multipliers in developing Himalayan economies. The study's detailed sectoral breakdown reveals particularly strong growth elasticities for education and infrastructure spending, while also identifying efficiency gaps in agricultural expenditures. Methodologically, the research stands out for its rigorous diagnostic testing protocol (ADF, PP, DF-GLS) and sophisticated treatment of non-stationarity issues common in macroeconomic time series. The findings carry important policy implications for Nepal's federalization process, suggesting optimal allocation formulas for intergovernmental fiscal transfers.

Yusuf and Mohd's (2021) investigation of Nigeria's debt-growth nexus offers critical insights into the temporal dimensions of sovereign borrowing impacts. Through careful analysis of multiple debt indicators (external debt stock, domestic debt, debt service ratios) from 1980-2018, the researchers uncovered a paradoxical dual effect: external debt exhibited short-term growth enhancement but long-term drag, while domestic debt showed the opposite pattern. The study's innovative methodological contribution lies in its temporal disaggregation of debt impacts, challenging conventional static analyses. The authors develop a compelling "debt

maturity mismatch" framework to explain these findings, highlighting how Nigeria's reliance on short-term external financing creates vulnerability to global shocks while domestic debt funds more productive long-term investments. These insights have profound implications for debt portfolio management in commodity-dependent economies.

Dangal and Gajurel (2021) provide an exhaustive 45-year analysis (1974/75-2018/19) of Nepal's expenditure composition and its growth implications, representing the most complete historical dataset assembled on the subject. Their sophisticated analytical approach combines descriptive trend analysis with advanced econometric modeling, yielding several groundbreaking findings. While confirming the overall positive growth impact of public spending (R^2=0.998), the study reveals surprising sectoral variations - notably negative coefficients for health and transportation expenditures. The authors develop an innovative "expenditure efficiency paradox" framework to explain these counterintuitive results, suggesting that poor implementation capacity rather than spending levels drives underperformance in certain sectors. The research provides crucial baseline data for evaluating Nepal's recent federalization reforms and offers concrete recommendations for improving public investment efficiency.

Upadhyaya's (2021) longitudinal study of Nepal's debt dynamics (1992/93-2018/19) makes significant contributions to both methodology and policy understanding. The research employs an unusually comprehensive set of regression specifications to test debt-growth relationships, consistently finding strong positive correlations (R^2>90%) across all models. The author's nuanced interpretation acknowledges this statistical relationship while cautioning against simplistic causal inferences, proposing instead a "debt productivity threshold" framework that considers expenditure quality. The study's most valuable contribution lies in its detailed decomposition of internal versus external debt impacts, providing empirical support for prioritizing domestic borrowing in Nepal's specific context. These findings have directly informed recent debt management strategy reforms in Nepal and offer relevant insights for similar low-income mountainous economies.

Onifade et al. (2020) groundbreaking ARDL analysis of Nigeria's fiscal policy (1981-2017) challenges conventional expenditure classification approaches by demonstrating that funding sources matter as much as spending categories. Their sophisticated econometric approach reveals that debt-financed expenditures consistently underperform regardless of sector, while revealing surprising negative impacts from recurrent spending. The study's most innovative contribution is its development of a "fiscal financing quality index" that helps explain why similar expenditures yield different growth outcomes based on their financing mechanisms. The authors provide compelling evidence that Nigeria's growth constraints stem less from spending levels than from structural weaknesses in budget formulation and execution. These findings have significantly influenced recent fiscal reforms in Nigeria and offer transferable lessons for other oil-dependent economies.

Chandana, et al. (2020) present a landmark 50-year study (1970-2019) of Nigeria's expenditure effectiveness, employing cutting-edge ARDL techniques with structural break adjustments. Their research makes several vital contributions: quantitatively establishing capital expenditure's superior growth impact (0.75 elasticity), demonstrating recurrent spending's neutral effects, and identifying optimal expenditure composition thresholds. The study's sophisticated treatment of structural breaks corresponding to oil shocks and democratic transitions provides unprecedented clarity on Nigeria's fiscal policy evolution. The authors develop a powerful "expenditure productivity frontier" framework that redefines how we assess fiscal effectiveness in resource-rich developing nations. These insights have profoundly influenced Nigeria's Medium-Term Expenditure Framework and offer a model for analyzing expenditure quality in similar economies.

Ndoricimpa's (2020) pioneering application of panel smooth transition regression to African debt analysis represents a major methodological advancement in fiscal studies. Covering the entire continent across multiple development periods, the research identifies precise debt threshold bands (58-66% of GDP) where impacts turn negative, with important variations by country groups. The study's robust treatment of endogeneity through dynamic panel threshold modeling sets new standards for debt sustainability analysis. The author's development of a "debt effectiveness corridor" concept provides policymakers with a more

nuanced tool than traditional single-threshold approaches. These findings have been incorporated into IMF/World Bank debt sustainability frameworks and offer critical guidance for African nations navigating post-pandemic fiscal challenges.

Kunwar (2019) studied how public spending affects Nepal's economic growth over a long period—from 1974/75 to 2017/18. The goal was to find out both short-run and long-run connections between government expenditure and GDP, and whether one causes the other. Using time series data and econometric tools like the Augmented Dickey-Fuller test, co-integration analysis, and the ARDL model, the study first checked whether the data were stable. It found mixed levels of stationary, making ARDL the suitable method. The results showed that a 1% increase in government expenditure leads to a 34.99% increase in GDP in the long run, and about 27.18% in the short run both statistically significant. The model used also passed key diagnostic tests, confirming its reliability and stability. Moreover, Granger causality tests revealed one-way causal relationships between government spending and economic growth, among others. Overall, the study confirms that smart and well-managed public spending can significantly drive Nepal's economic development, especially when directed at productive sectors.

Gupta (2018) examined how various types of government spending affect Nepal's economic growth between 2002/03 and 2015/16. The study's objective was to identify which components of public expenditure—like capital and recurrent spending, investments in agriculture, non-agriculture, industry, and services—either support or hinder growth. Using secondary data from Nepal's economic surveys, Gupta applied a regression model and diagnostic tools such as the Durbin-Watson test for autocorrelation and the VIF test for multicollinearity. The findings revealed that investment in agriculture, non-agriculture, industry, and service sectors positively impacts growth, with statistically significant beta coefficients showing strong correlations. However, recurrent and capital expenditures, along with inflation, were found to negatively affect economic growth. The model showed high explanatory power, with an adjusted R^2 of 0.987, indicating that nearly 99% of the variation in economic growth could be explained by the predictors. The paper concluded that channeling government spending into productive sectors like agriculture, industry, and

services is essential for boosting Nepal's economy, while excessive recurrent spending and inflation may be growth-dampening.

Gautam (2017) investigated a study financial development and economic growth in Nepal. This study explores how financial development through indicators like domestic credit, broad money supply, and private sector credit affects Nepal's economic growth from 1975 to 2012. The objective is to test if finance leads growth or vice versa, using time series data and methods like Augmented Dickey-Fuller and Phillips-Perron tests for stationary, Johansen co-integration for long-run relationships, Granger causality tests for direction of influence, and a vector error correction model for short-run dynamics. The findings show a strong and statistically significant long-run connection between financial development and GDP, with bi-directional causality: financial development sparks short-term growth, while sustained economic growth fuels long-term financial expansion. The study suggests Nepal must focus on financial system reforms and consolidation to strengthen this positive interaction and improve resilience during economic shifts.

Koirala (2010) examined how different parts of Nepal's fiscal policy like government spending, tax collection, and foreign aid impact economic growth. The study aimed to test whether dividing expenditure into "productive" (like spending on health, education, and infrastructure) and "unproductive" (like general administration costs), and taxes into "distortionary" (such as income taxes) and "non-distortionary" (such as consumption taxes), would help clarify their effects on growth. Using time series data from 1975 to 2009, the research applied regression models inspired by endogenous growth theory. The findings showed that productive spending and capital investment help boost GDP, while indirect taxes have a positive effect, likely because they don't disrupt private investment behavior. On the other hand, foreign grants were surprisingly found to have a negative impact—possibly because they're often used for non-productive purposes or tied to donor conditions. The conclusion was that Nepal's fiscal policy can encourage growth, but only when it's focused on building human capital, improving infrastructure, and using taxes and grants more efficiently.

Gaudel (2006) explored how remittance income contributes to Nepal's economic development, especially considering its growing role as a source of foreign currency and national income. The main objective was to understand the benefits and risks of remittances, examine their socio-economic effects, compare them with foreign direct investment (FDI), and measure their impact on GDP alongside grants and pensions. Using secondary data from government publications covering the period between 1991 and 2005, the study employed regression analysis to capture how changes in remittance, grant, and pension income influence nominal GDP. The findings showed that remittance income significantly boosts GDP—every 1% increase in remittance raised GDP by up to 5.17%. Grants were even more potent, with 1% increases leading to about 14–15% GDP growth, while pensions also had a notable but smaller effect. However, the paper also highlighted concerns: over-reliance on foreign work, youth migration, social vulnerability, and limited productive use of remitted funds. In essence, remittances are a lifeline for many Nepalese households, but for long-term development, policies must redirect this income into more sustainable and productive sectors. Odedokun (2001) studied how government money decisions—like spending, taxes, and borrowing—affect economic growth in developing countries. The goal was to break down different types of fiscal actions and see how they impact various kinds of countries: poorer ones, richer ones, those that earn money from minerals, and those that depend on foreign aid. Using data from 103 countries between the 1970s and 1990s, the research applied statistical models to look at how per capita income changed over time, while also considering other factors like trade, income levels, and population age. The findings showed that when governments spent more on things like infrastructure or general services, growth slowed down—especially when the money went toward buying goods and services. But spending on education and employee wages helped the economy grow. Taxing incomes and domestic sales tended to hurt growth, while trade-related taxes actually helped in poorer and aid-dependent countries. Borrowing money—whether locally or from abroad—also slowed down growth, though aid grants helped in countries that truly depended on them. In short, the way governments use their money matters a lot, and smart, focused spending is more effective than simply spending more.

Thapa and Adhikari (2025) examined the impact of macroeconomic indicators on the Nepal Stock Exchange (NEPSE) performance to analyze both short-term and long-term effects of deposits, reserve money, liquidity, and lending interest rates on stock market trends in Nepal. Employing a quantitative research design with time-series data from 2005 to 2024 (203 monthly observations) collected from multiple official sources, the study used an Auto-Regressive Distributed Lag (ARDL) model to capture dynamic relationships, selecting lag 2 as optimal based on Akaike Information Criterion (AIC), Schwarz Criterion (SC), and Hannan-Quinn Criterion (HQ). The findings revealed a strong momentum in NEPSE with significant influence from its own past values (NEPSE(-1) coefficient = 0.89, t = 32.016, p < .001). Lending interest rates negatively affected NEPSE significantly (coefficient = -17.45, t = -3.225, p = .002), indicating that higher borrowing costs discourage stock market investment. Deposits and liquidity showed no immediate effect but had significant lagged effects, such as deposits at lag 2 (t = 2.394, p = .018) and liquidity at lag 2 (t = 3.107, p = .002), suggesting delayed investor responses. Reserve money initially reduced NEPSE due to inflation concerns but later contributed positively (lag 1 reserve money t = 1.679, p = .095). The model demonstrated high explanatory power with R-squared = 0.9809 and F-statistic = 874.86 (p < .001), confirming strong predictive strength. The study highlights the complex interplay of macroeconomic variables influencing Nepal's stock market and underscores the role of monetary policy in shaping investor behavior.

Joshi and Adhikari (2025) examined a study titled The Impact of Public Debt on Economic Growth and Revenue Generation in Nepal with the objective of examining how public debt has evolved from 1974/75 to the present and its implications for economic growth and revenue mobilization in Nepal. Using a historical and comparative macroeconomic research design, the study relied on secondary quantitative data from sources such as the Nepal Rastra Bank, Ministry of Finance, IMF, and World Bank. The population included Nepal's macroeconomic indicators over five decades, and comparative references were drawn from South Asian nations like India, Bangladesh, and Sri Lanka. The study was guided by the debt overhang theory, Ricardian equivalence, and fiscal multiplier framework. It found that Nepal's external debt-to-GDP ratio rose from 15.56% in 1974 to 35.7% in 2020, and although debt servicing costs as a share of government revenue declined from 15.57% in

2000 to 7.14% in 2024, they continued to restrict public investment. Tax revenue as a percentage of GDP remained low, reaching only 11.4% by 2024, limiting domestic financing capacity. While certain externally funded projects, such as the Upper Tamakoshi Hydroelectric Project, generated positive economic returns, many others suffered from mismanagement. The study concluded that although public debt supported development, inefficient debt utilization, a weak tax system, and rising repayment obligations negatively affected Nepal's fiscal sustainability and long-term economic growth.

Upadhyaya (2025) explored a study titled Government Expenditure and Revenue in Nepal: Trends, Challenges and Policy Implications with the objective of examining the long-term trends and structural changes in government spending and revenue collection in Nepal from fiscal year 1975/76 to 2024/25. The study employed a descriptive research design using secondary data from the Ministry of Finance and Nepal Rastra Bank, covering nearly five decades. The population included national-level fiscal data with no sampling applied. The research relied on time-series analysis, using visual tools like tables and graphs to highlight the evolution of expenditure patterns particularly the shift from capital to recurrent spending post-1995/96 and revenue growth dynamics. The study framework was observational and exploratory, focusing on the interdependence between government expenditure and revenue over time. The findings revealed that government expenditure grew at an average annual rate of 16%, with a peak growth rate of 60.95% in 2009/10 and a low of 0.3% in 2001/02, while recurrent expenditure consistently surpassed capital expenditure in recent decades. Government revenue also showed sustained growth, with its highest growth rate of 24.14% observed during 2005/06–2009/10. However, recent years have shown a decline in growth to 9.68% by 2015/16–2019/20, signaling fiscal pressures and the need for strategic resource allocation and policy reforms.

Adhikari, et al,. (2025) examined a study titled Dynamic Effects of Change in Government Expenditure in the Nepalese Economy with the objective of examining how changes in government spending influence key macroeconomic variables and identifying the transmission mechanisms of such fiscal shocks in Nepal from 1990 to 2023. The study adopted an unrestricted Vector Autoregressive (VAR) model using annual secondary time-

series data sourced from Nepal Rastra Bank and the Ministry of Finance, focusing on six variables: government expenditure, real GDP, private consumption, interest rate, real exchange rate, and debt-to-GDP ratio. The data were analyzed using impulse response functions and variance decomposition techniques, where government expenditure was treated as a leading indicator under the assumption of exogeneity. The research framework was based on the neoclassical and Keynesian paradigms, incorporating the Ricardian equivalence and crowding-out effects. The findings revealed that a positive government expenditure shock negatively impacted consumption, output, and interest rates over time, suggesting crowding out of private investment and declining economic activity in the long run. Output increased by only 1.3% after a 1% rise in government spending, indicating a multiplier of less than one. Furthermore, the real exchange rate appreciated, and debt-to-GDP initially declined but later increased, reflecting delayed fiscal stress. The study concluded that expansionary fiscal policy had only limited and temporary effects on macroeconomic stability, supporting the relevance of both neoclassical and Ricardian interpretations in the context of Nepal.

Poudel, et al,. (2025) explored a study titled The Impact of Governance, Corruption Control, and Political Stability on Economic Growth in Nepal: An Econometric Analysis, aiming to examine how governance indicators influence Nepal's GDP per capita from 1996 to 2022. Using a quantitative research design, the authors employed Fully Modified Ordinary Least Squares (FMOLS), Dynamic Ordinary Least Squares (DOLS), and Canonical Cointegrating Regression (CCR) models to analyze annual time-series data sourced from the World Bank's World Development Indicators and Worldwide Governance Indicators databases. The study focused on four independent variables—Political Stability (PS), Government Effectiveness (GE), Regulatory Quality (RQ), and Control of Corruption (CC)—with GDP per capita as the dependent variable. Key findings revealed a significant positive relationship between political stability and GDP (FMOLS coefficient = 5.51E+09, *p* < 0.01), while government effectiveness showed a negative correlation (FMOLS coefficient = -2.31E+10, *p* < 0.01), suggesting inefficiencies in governance structures. Corruption control exhibited mixed effects (CCR coefficient = 1.11E+10, *p* < 0.10), and regulatory quality's impact varied across models (DOLS coefficient = 9.68E+09, *p* < 0.05). The study concluded that

political stability is critical for growth, but governance reforms are needed to address inefficiencies in public administration.

Turlo and Litvin (2025) investigated a study titled "Inflation and its Impact on Employees' Real Incomes," which aimed to analyze how inflation affects the real incomes of employees in Ukraine, identify key trends and influencing factors, and assess potential strategies to mitigate inflation's negative consequences. Employing a methodological approach grounded in statistical analysis, the study utilized a comparative analysis method and econometric modeling based on multivariate linear regression to examine the relationship between inflation and employees' real incomes. Data was sourced from official institutions such as the State Statistics Service of Ukraine, the National Bank of Ukraine, and the Ministry of Finance of Ukraine. The findings indicated a substantial inverse correlation between inflation rates and purchasing power, highlighting the inadequacy of wage indexation in counteracting inflationary effects. Econometric analysis further substantiated that inflation erodes employees' real incomes, and the implementation of anti-inflationary policies alongside strengthened social protection measures could alleviate these adverse outcomes.

Barisua (2025) investigated a study titled Macroeconomic Variables and Nonperforming Loans of Quoted Commercial Banks in Nigeria, aiming to examine the effects of macroeconomic factors on nonperforming loans (NPLs) in Nigerian commercial banks. The study employed a cross-sectional research design, sourcing financial statement data from quoted commercial banks and time-series data from the Central Bank of Nigeria Statistical Bulletin. Using panel data analysis with Ordinary Least Squares (OLS), the fixed effect model, and the Hausman test, the study assessed the dynamic relationships between NPLs and macroeconomic indicators such as real interest rate, exchange rate, broad money supply, real gross domestic product, and inflation rate. The findings revealed that 85.8% of variations in NPLs were explained by macroeconomic fluctuations. Specifically, exchange rate and broad money supply showed a negative but insignificant effect, real interest rate exhibited a positive and significant impact, inflation rate had a positive but insignificant effect, while real GDP demonstrated a negative and insignificant effect on NPLs. The study concluded that macroeconomic variables strongly influence the incidence of NPLs and recommended

policy measures such as improving exchange rate stability, sound credit management, and inflation control to mitigate loan default risks.

Pappas and Boukas (2025) studied a study titled Examining Impact of Inflation and Inflation Volatility on Economic Growth: Evidence from European Union Economies, aiming to analyze the effects of inflation and inflation volatility on economic growth in EU economies from 2000 to 2023. The study employed a panel data regression analysis with fixed effects, integrating control variables such as trade openness, investment levels, and public debt. The data was sourced from Eurostat, Federal Reserve Bank of St. Louis, and the Worldwide Governance Indicators. The methodology incorporated Generalized Method of Moments (GMM), dynamic panel models, and bias-corrected least squares dummy variable (LSDVC) estimations to account for endogeneity and non-linearity in the relationship. The findings revealed no statistically significant evidence that the inflation rate negatively impacted economic growth ($\beta = -0.098, p > 0.1$), but inflation volatility had a weak negative correlation with GDP growth ($\beta = -0.333, p = 0.10$). Additionally, higher long-term interest rates showed a consistently strong negative effect on economic growth ($\beta = -0.553, p < 0.01$). The study concluded that aggressive monetary tightening in the euro area could be detrimental to economic growth, suggesting that the European Central Bank should adopt a more cautious approach to interest rate hikes rather than focusing solely on inflation control.

Suminig et al. (2024) analyzed a study titled Employment and Inflation Dynamics in the Philippines (2019-2024): An Analysis of Trends, Policies, and Socio-Economic Implications, aiming to examine the complex relationship between employment dynamics and inflation control, highlighting strategies for inclusive governance and sustainable economic development. The study employed a mixed-method approach, integrating macroeconomic theories and governance frameworks to explore employment trends and inflationary pressures. The research utilized data from the Philippine Statistics Authority (PSA) and the Consumer Price Index (CPI) to analyze key labor market indicators and inflation trends over the five-year period. The findings indicated that while employment rates showed recovery post-pandemic, underemployment remained a persistent challenge, reflecting disparities in

job quality. The study confirmed an inverse relationship between inflation and unemployment, consistent with the Phillips Curve framework. Public administration policies such as the Bayanihan to Heal as One Act played a significant role in mitigating employment and inflation challenges; however, inflation-sensitive employment programs and sectorial investments were necessary for long-term stability. The researchers concluded that a comprehensive governance strategy integrating employment growth with inflation control is vital for sustainable economic development.

Raza et al. (2023) investigated a study titled Inflation and the Role of Macroeconomic Policies: A Model for the Case of Denmark, aiming to assess the impact of fiscal, monetary, and income policies on inflation and output in a small open economy. The study employed a stock-flow consistent model, utilizing sectorial national account data for Denmark spanning 2005Q1 to 2020Q2. The methodology involved estimating structural parameters through dynamic regressions and log-linearizing key economic relationships to analyze the feedback effects between pricing mechanisms, wages, and macroeconomic policies. The findings revealed that monetary tightening had the most dramatic effects on public debt sustainability and reduced fiscal space. Specifically, interest rate hikes led to a decline in GDP by approximately 2%, while inflation was modestly reduced by 0.8 percentage points. The model further demonstrated that fiscal and income policy coordination could mitigate adverse shocks, improving GDP by 0.5% and lowering unemployment by 0.5 percentage points. The study concluded that a well-structured fiscal intervention, particularly tax reliefs, could weaken wage-price spirals without significantly exacerbating inflation.

Table 1

Summary of Empirical Review

Author(s)	Objective	Methodologies	Findings
Mustafa and Abdullahu (2024)	To determine how government spending and FDI influence GDP growth.	Ordinary Least Squares (OLS) econometric model, multiple regression analysis.	Strong positive correlation between public spending and GDP growth.
Soumena, Umaima, Nurwahida, and Syam (2024)	To analyze how the distribution of funds to micro, small, and medium enterprises (MSMEs) and the levels of NPF.	Quantitative approach, multiple linear regression analysis.	Positive and significant effect on economic growth.
Suharli, Idayanti, Irma, and Wahyu (2024)	To determine the individual and combined effects of these variables on regional economic development.	Quantitative descriptive approach, multiple linear regression analysis.	Working capital financing has a significant negative impact on economic growth.
Aisyah, Suarmanayasa, Efendi, Widiastuti, and Harsono (2024)	To analyze the role of fiscal policy in stabilizing the economy and promoting sustainable growth	A library research methodology, documents, journals, and historical data.	Negative impact on economic growth in Indonesia.
Nuţ ă, Lupu, and Nuţ ă (2023)	To explore the extent to which government	ARDL model with structural breaks, analyze time-series	A mixed relationship between education spending and growth

	education expenditures affect long-term economic growth in this region.	data from 1990 to 2020.	increase in education.
Nhemhafuki (2023)	To analyze the Relationship between Economic Growth and government expenditure.	Random Effect model	A positive relationship between Government Expenditure and Economic Growth
Akoley, Wahid, and Kulo (2022)	To empirically assess the relationship between these variables using time series data from 2000 to 2019.	A combination of descriptive analysis and regression analysis, Ordinary Least Squares (OLS) technique.	A significant positive relationship between government expenditures, government revenues, and exchange rates on GDP growth in Ghana.
Upadhyaya and Pun (2022)	To analyze whether public debt significantly affects economic growth	An unrestricted Vector Auto Regression (VAR) model.	Public debt is a critical component of fiscal policy, its impact on GDP growth remains limited.
Abbas, Afshan, and Mustifa (2022)	To analyze how financial development influences economic growth and income inequality.	Panel Autoregressive Distributed Lag (ARDL) model and a Granger causality test.	Financial development significantly contributes to economic growth.
Dhungel (2021)	To investigate the	Stationary Test and the	Public expenditure in

	effect of public spending on GDP growth in Nepal	Ordinary Least Squares method.	education and health sectors enhances human capital, which subsequently positively influences the nation's economic growth.
Yusuf and Mohd (2021)	To examine the effect of government debt on economic growth in Nigeria.	Quantitative method and descriptive research design.	External debt constituted an impediment to long-term growth while Domestic debt had a significant positive impact on long-term growth while its short-term effect was negative.
Dangal and Gajurel (2021)	To examine the trends of public expenditure in Nepal.	Descriptive cum exploratory methodology, correlation and regression.	Positive correlation between RGDP and all forms of public expenditure.
Upadhyaya (2021)	To analyze the relationship between internal and external debt and GDP growth.	Descriptive and analytical research designs with simple and multiple regression models.	Public debt significantly contributes to economic development in Nepal.
Onifade et al (2020)	To investigates the impact of government expenditures on economic growth in Nigeria	Using th Auto-Regressive Distributed Lag (ARDL) approach.	Recurrent expenditures have a significant negative impact on economic growth.
Chandana,	To analyze how	Autoregressive	Capital expenditure has a

Adamu, and Musa (2020)	both capital and recurrent government expenditures influence economic growth during this period.	Distributed Lag (ARDL) model, unit root tests and co-integration analysis.	positive and significant impact on economic growth.
Kusuma (2020)	To assess how different dimensions of financial inclusion.	Quantitative analysis.	All dimensions of financial inclusion significantly influence economic growth.
Ndoricimpa (2020)	To reevaluate the impact of public debt on economic growth in Africa, focusing on threshold effects	Employing the panel smooth transition regression method.	Public debt negatively affects economic growth.
Magdalena and Suhatman (2020)	To assess the individual and combined effects of these variables on the primary sector's growth.	Multiple linear regression analysis.	A statistically significant effect on the sector's economic growth.
Ashfaq and Padda (2019)	To estimate how public debt impacts economic growth.	Time series data, Autoregressive Distributed Lag (ARDL) bound test technique.	Increased government borrowing can enhance economic growth.
Gupta (2018)	To analyze how different components of	Regression analysis model, including the Durbin-Watson (D-W)	Positive relationship between economic growth and non-

	government expenditure	test.	agriculture while total capital expenditure has a negative correlation with economic growth.

2.3 Research Gap

The existing literature on the impact of public finance on economic growth reveals significant gaps that this thesis aims to address. While numerous studies have explored the relationship between fiscal policy and economic growth, many have been constrained by limited variables, short time periods, and a narrow focus on specific fiscal indicators such as government expenditure or tax revenue alone. These limitations often overlook critical factors that can influence growth dynamics, including the structure of public debt, the efficiency of fiscal policy implementation, intergovernmental fiscal transfers, and the composition of government spending. This study seeks to fill these gaps by utilizing a comprehensive secondary data set spanning ten years, incorporating a broader and more diverse range of fiscal variables that have been underexplored in previous research.

By examining both direct and indirect effects of public finance on economic growth, the study aims to provide a more holistic understanding of how fiscal decisions affect Nepal's economic trajectory. For example, the structure and sustainability of public debt may influence growth differently depending on whether debt finances productive investments or recurrent expenditures. Similarly, the effectiveness of fiscal policy in stimulating growth can depend on the efficiency of public spending and the institutional capacity to manage resources, factors often neglected in earlier studies. Furthermore, intergovernmental transfers and fiscal decentralization may play a crucial role in promoting regional development and overall economic expansion, especially in a diverse and developing economy like Nepal. This research adopts a robust methodological framework designed to capture the complex, and potentially nonlinear, relationships between various public finance components and economic growth. By doing so, it aims to generate more reliable and nuanced findings that can inform policymakers about how to design fiscal strategies that maximize growth potential while maintaining fiscal sustainability. The study's comprehensive approach also

sets a precedent for future research in Nepal and similar developing countries, emphasizing the importance of considering a wide array of fiscal factors-including debt management, expenditure efficiency, and fiscal federalism-in analyzing economic growth. Ultimately, this thesis contributes to the existing body of knowledge by providing empirical evidence on the multifaceted role of public finance in shaping Nepal's economic growth. It highlights the critical need for integrated fiscal policies that not only focus on increasing government revenue or spending but also prioritize the quality, composition, and sustainability of fiscal activities. Such insights are vital for policymakers aiming to foster sustained economic development, reduce poverty, and enhance overall economic resilience in Nepal.

CHAPTER III
RESEARCH METHODOLOGY

3.1 Research Design

This research study has adopted and employed casual research design. The goal of causal study design is to identify cause-and-effect relationship between variables. Researchers employed causal research to investigate whether changes in one variable cause changes in another variable while controlling for other factors that may influence the relationship.

3.2 Population and Sampling Procedure

In this study population is a public finance indicators but since they are a lots of public finance indicators that impact economic growth rate in various way. Therefore, with the help of random sampling methods, selected major public finance indicators have been selected.

3.3 Nature and Sources of Data

This study has used secondary nature of data and data has collected from the official websites of Nepal Rastra Bank.

3.4 Research framework and definition of variables

This research framework explores how key fiscal and macroeconomic factors influence Nepal's economic growth rate, focusing on internal debt, external debt, population growth rate, inflation rate, and gross capital formation as the main independent variables. Internal debt can potentially limit growth by crowding out private investment if borrowing is excessive or inefficient, while external debt can support growth by financing important development projects, provided it remains within sustainable limits. Population growth affects the labor force size and economic output, influencing overall productivity and per capita income. Inflation impacts economic stability, where moderate inflation may have little effect, but high inflation tends to reduce investment and consumption, slowing growth. Gross capital formation represents investments in physical infrastructure and assets, which are vital for expanding productive capacity and fostering long-term economic development. By capturing these diverse factors, the framework provides a comprehensive approach to

understanding the complex ways fiscal policy and macroeconomic conditions interact to shape Nepal's growth trajectory. This approach allows policymakers to identify which fiscal elements most effectively promote sustainable growth and to design strategies that balance fiscal discipline with development needs.

Figure 1: Research Framework of the Study

Source: (*Dangal and Gajurel 2021).*

Real Gross Domestic Product

The aggregate financial value of all goods and services produced inside a nation's boundaries for a given time period, usually a year or a quarter, is known as the gross domestic product, or GDP. It is a crucial economic metric that captures a nation's overall economic performance and health.

Internal Debt

Internal debt refers to the total amount of money borrowed by the government from domestic sources within the country. This includes borrowing from banks, financial institutions, and the public through instruments such as treasury bills, bonds, and other securities. Internal debt is used to finance budget deficits and public expenditures but may crowd out private investment if excessive.

External Debt

External debt is the total public and private debt owed by a country to foreign creditors. This includes loans from foreign governments, international financial institutions, and foreign

commercial banks. External debt finances development projects and budget deficits but carries risks related to exchange rate fluctuations and debt sustainability.

Gross Capital Formation

Gross capital formation measures the total investment in fixed assets within an economy during a specific period. It includes spending on physical assets such as buildings, machinery, infrastructure, and changes in inventories. This indicator reflects how much of the economy's output is invested rather than consumed and is crucial for expanding productive capacity and fostering long-term economic growth.

Population Growth Rate

Population growth rate is the annual percentage increase in a country's population. It affects the labor supply, dependency ratios, and demand for goods and services. High population growth can either provide a demographic dividend by expanding the workforce or strain resources if growth outpaces economic development.

Inflation Rate

Inflation rate is the percentage change in the general price level of goods and services over a period, typically measured by the Consumer Price Index (CPI). Moderate inflation can stimulate spending and investment, but high or volatile inflation erodes purchasing power, creates uncertainty, and can hinder economic growth.

3.5 Methods of analysis

The method of analysis for this dissertation involves a comprehensive examination of the impact of various fiscal and macroeconomic variables on Nepal's economic growth rate, with economic growth rate serving as the dependent variable. The independent variables include internal debt, external debt, population growth rate, inflation rate, and gross capital formation, each normalized by dividing by GDP where applicable. The analysis begins with descriptive statistics to summarize the main features of these variables, including the mean, median, standard deviation, range, quartiles, and percentiles, providing a foundational understanding of the data set. Correlation analysis is then conducted to explore the

relationships between the independent variables and economic growth, using the Pearson correlation coefficient to determine the strength and direction of these relationships, which are presented in a correlation matrix. Regression analysis follows, including both simple linear regression to examine the relationship between each independent variable and economic growth individually, and multiple regression to analyze the combined effect of all independent variables on economic growth. Regression diagnostics are performed to ensure the validity and reliability of the models. Lastly, Analysis of Variance (ANOVA) is employed to compare the means of the independent variables across different groups or time periods and to determine if these differences are statistically significant, using both one-way ANOVA to test the effect of a single factor and two-way ANOVA to examine interaction effects between two factors.

3.5.1 Financial Tools

Real Gross Domestic Product

The aggregate financial value of all goods and services produced inside a nation's boundaries for a given time period, usually a year or a quarter, is known as the gross domestic product, or GDP. It is a crucial economic metric that captures a nation's overall economic performance and health. It is calculated as follows;

RGDP= C+G+I (X-M)

Internal Debt

Internal debt refers to the total amount of money borrowed by the government from domestic sources within the country. This includes borrowing from banks, financial institutions, and the public through instruments such as treasury bills, bonds, and other securities. Internal debt is used to finance budget deficits and public expenditures but may crowd out private investment if excessive. It is calculated as follows;

$$\text{ID}= \frac{\textbf{Total Internal Debt}}{Gross\ Domestic\ Product} * 100$$

External Debt

External debt is the total public and private debt owed by a country to foreign creditors. This includes loans from foreign governments, international financial institutions, and foreign

commercial banks. External debt finances development projects and budget deficits but carries risks related to exchange rate fluctuations and debt sustainability. It is calculated as follows:

ED= $\frac{Total\ External\ Debt}{Gross\ Domestic\ Product} * 100$

Gross Capital Formation

Gross capital formation measures the total investment in fixed assets within an economy during a specific period. It includes spending on physical assets such as buildings, machinery, infrastructure, and changes in inventories. This indicator reflects how much of the economy's output is invested rather than consumed and is crucial for expanding productive capacity and fostering long-term economic growth. It is calculated as follows:

GCF= $\frac{Gross\ Capital\ Foramtion}{Gross\ Domestic\ Prodcut} * 100$

Population Growth Rate

Population growth rate is the annual percentage increase in a country's population. It affects the labor supply, dependency ratios, and demand for goods and services. High population growth can either provide a demographic dividend by expanding the workforce or strain resources if growth outpaces economic development. It is calculated as follows:

PGR= $\frac{Current\ Population - Previous\ Population}{Previous\ Population} * 100$

Inflation Rate

Inflation rate is the percentage change in the general price level of goods and services over a period, typically measured by the Consumer Price Index (CPI). Moderate inflation can stimulate spending and investment, but high or volatile inflation erodes purchasing power, creates uncertainty, and can hinder economic growth. It is calculated as follows:

IR= $\frac{CPI1 - CPI0}{CPI0} * 100$

3.5.2 Method of Analysis

Mean= The mean, also known as the arithmetic mean, is a measure of central tendency that represents the average value of a set of numbers. It is calculated by summing all the values in

the set and then dividing the sum by the number of values. It is computed as follows: $\overline{\boldsymbol{X}} = \frac{\boldsymbol{\Sigma X}}{\boldsymbol{n}}$

Where,

X= Arithmetic Average

∑x= Summation for total values of the variable/observation

N= Number of items

Standard deviation (S.D): The positive square root of the mean of the square of the deviations from the arithmetic mean is known as the standard deviation, or S.D. It's calculated as $\text{S. D. } (\boldsymbol{\sigma}) = \sqrt{\frac{\overline{(\mathbf{X}-\overline{\mathbf{X}})}}{\mathbf{N}-\mathbf{1}}}$

Where ,

$\bar{X}$= mean

n= number of item

Correlation of coefficient (r): The correlation coefficient is employed in this study to ascertain the relationship between several variables, including return on equity, non-performing loan ratio, and earnings per share. In practice, the correlation coefficient is most frequently utilized. There are two types of correlation: positive and negative. It is symbolically represented by r.

$$\mathbf{r} = \frac{\mathbf{N}\sum\mathbf{XY} - \sum\mathbf{X}\sum\mathbf{Y}}{\sqrt{\mathbf{N}\sum\mathbf{X^2} - (\sum\mathbf{X^2})}\sqrt{\mathbf{N}\sum\mathbf{Y^2} - (\sum\mathbf{Y})^2}}$$

Where,

r = Correlation Coefficient,

N = no of observation in series X and Y

∑ X = Sum of observation in series X

∑ Y = Sum of observation in series Y

∑ X 2 = Sum of square observation in series X

∑ Y 2 = Sum of square observation in series Y

∑ XY = Sum of the product of observation in series X and Y

Multiple Regression Model: The MRA (Multiple Regression Analysis) is an extension of multiple regression analysis, differing in that it involves two or more independent variables

instead of a single one. The regression model with 'k' independent variables can be expressed as: RGDP: $a+ \beta 1_{IDR}+ \beta 2_{EDR}+ \beta 3_{GCF}+ \beta 4_{TE}+ \beta 5_{IFR}+ \beta 5_{PGR}$

Where

RGDP= Real Gross Domestic Product

IDR= Internal Debt Ratio

EDR= External Debt Ratio

GCF= Gross Capital Formation

IFR= Inflation Rate

PGR= Population Growth Rate

CHAPTER-IV
RESULT AND DISCUSSION

This chapter is carried out to bridge the gap between theory and empirical evidence by examining how key economic indicators influence per capita income in Nepal. Building on the framework and objectives outlined earlier, this section interprets relevant findings not merely to report statistical outcomes, but to uncover how fiscal policy, financial development, remittance flows, and targeted public spending translate into actual economic impact.

4.1 Result

It begins with a review of data patterns using descriptive statistics, followed by correlation analysis to examine the strength and direction of relationships among variables. Lastly, regression modeling is employed to assess the predictive impact of internal debt ratio (IDR), external debt ratio (EDR), gross capital formation (GCF), inflation rate (IFR), and population growth rate (PGR) on economic growth. These results offer insight into how fiscal and macroeconomic indicators collectively shape Nepal's development path over the study period.

Figure 2

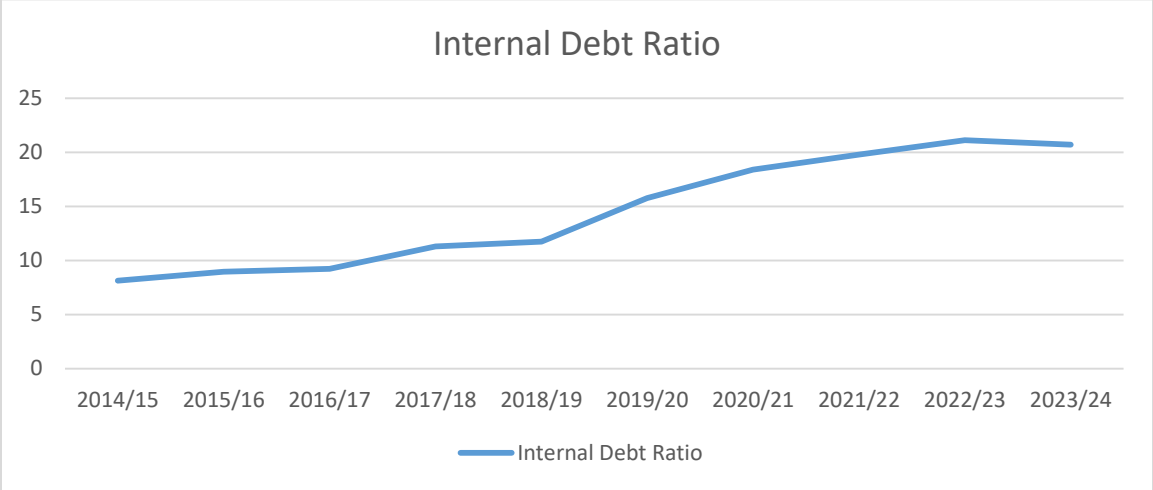
Real Gross Domestic Product

Source: Nepal Rastra Bank

Nepal's RGDP showed a mixed pattern between FY2014/15 and FY2023/24, reflecting the country's shifting economic momentum. It peaked at 9.0% in FY2016/17 during post-earthquake recovery, and stayed strong in FY2017/18 with 7.6%, supported by development spending and infrastructure growth. However, RGDP fell dramatically in FY2015/16 and FY2019/20 due to the 2015 earthquake and the COVID-19 pandemic, hitting as low as -2.4%. In recent years, the economy stabilized with moderate growth, climbing to 4.8% in FY2020/21 and 5.6% in FY2021/22. This fluctuation signals how external shocks and investment cycles influence Nepal's economic performance, and how public finance can either cushion or amplify those effects depending on the fiscal response.

Figure 3

Internal Debt Ratio

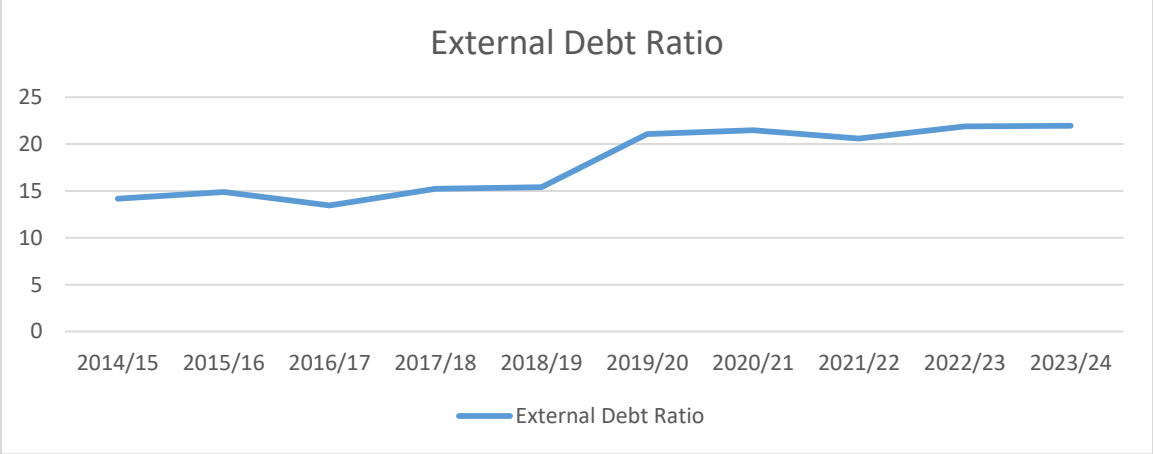


Source: Nepal Rastra Bank

Nepal's internal debt ratio steadily climbed from 8.12% in FY2014/15 to 21.11% by FY2022/23 before slightly decreasing to 20.71% in FY2023/24. This increase reflects growing reliance on domestic borrowing to finance development and budget deficits. Major jumps in debt occurred during crisis years, like FY2019/20 and FY2020/21, when public spending needed to be supported locally. While internal borrowing provides fiscal flexibility, excessive reliance may pressure the domestic financial market and reduce liquidity for private sector credit. Still, if used productively, internal debt can play a strong role in fueling infrastructure and social investment that supports long-term economic growth.

Figure 4

External Debt Ratio

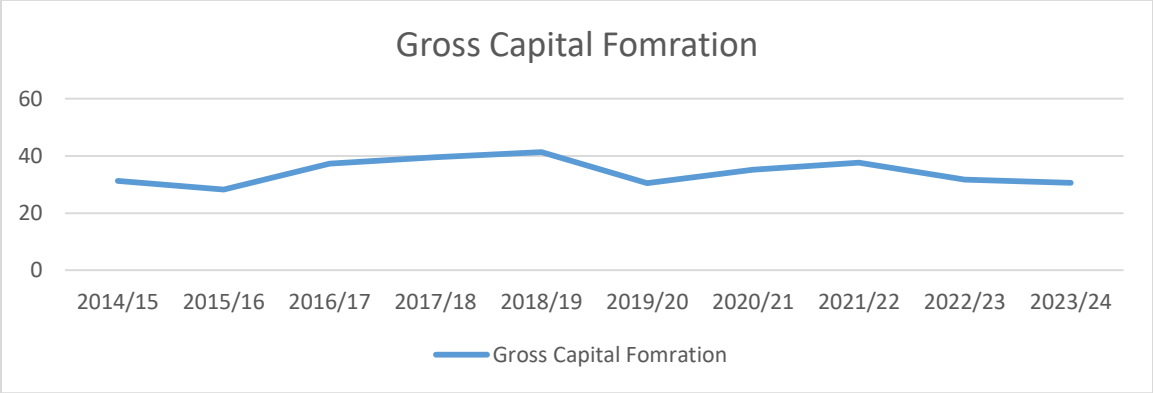


Source: Nepal Rastra Bank

External debt followed a similar upward trend, rising from 14.16% in FY2014/15 to 21.95% in FY2023/24. Nepal increasingly tapped international loans to support large-scale infrastructure projects like hydropower and highways, especially during periods of low domestic revenue. While foreign loans can provide long-term development capital at concessional rates, they carry risks of dependency, repayment pressure, and vulnerability to foreign exchange volatility. The consistent increase highlights the need for strategic planning in external borrowing, ensuring that funds are invested in projects that generate economic returns and improve living standards.

Figure 5

Gross Capital Formation

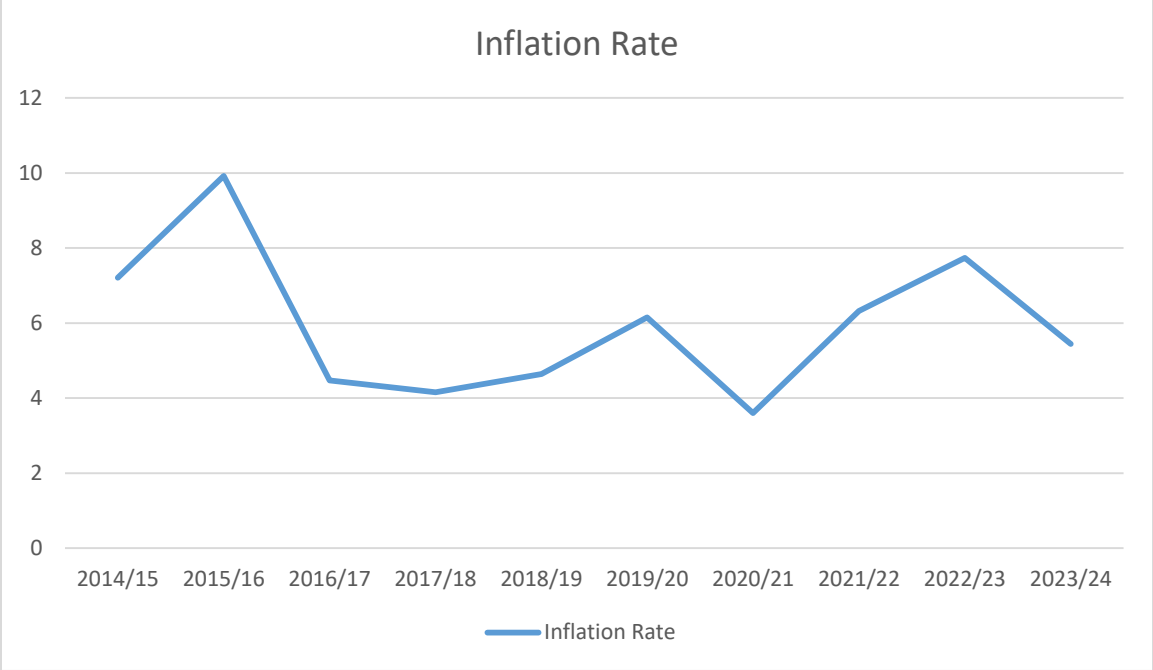


Source: Nepal Rastra Bank

GCF showed dynamic changes, rising steadily from 31.27% in FY2014/15 to a peak of 41.37% in FY2018/19, and then softening to 30.53% in FY2023/24. High levels in years like FY2016/17 and FY2017/18 suggest strong investment in physical infrastructure and productive assets, supporting GDP growth. However, the drop in FY2019/20 and again in later years reflects possible inefficiencies in budget execution or slower project uptake. These fluctuations imply that while Nepal prioritizes investment-led growth, sustained and timely capital formation is essential for keeping development on track.

Figure 6

Inflation Rate



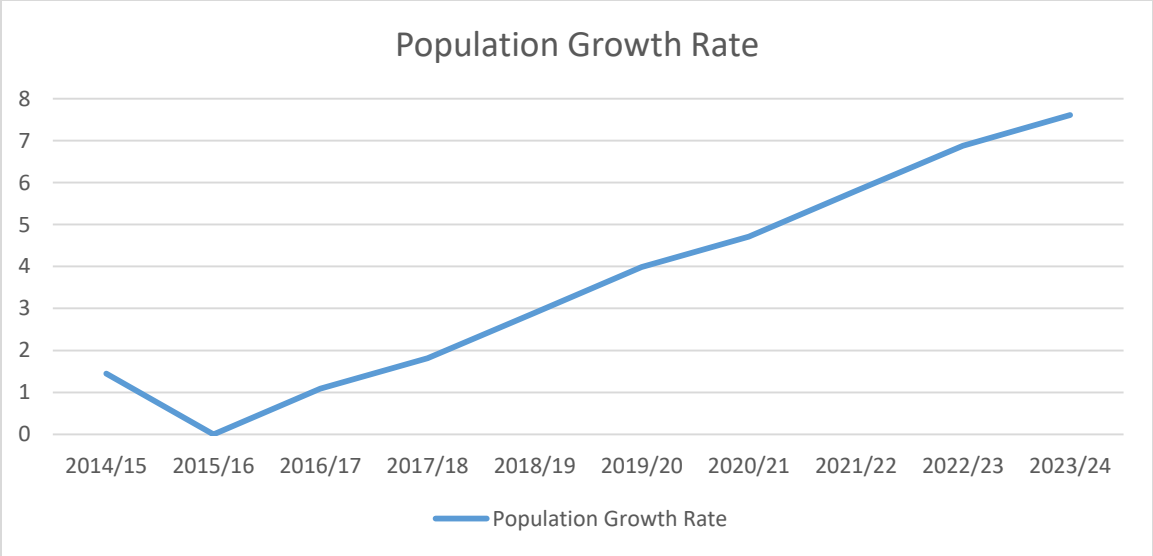
Source: Nepal Rastra Bank

Inflation in Nepal fluctuated widely over the study period, affecting both household welfare and macroeconomic stability. It spiked to 9.92% in FY2015/16 following supply disruptions and post-earthquake demand pressures, and later eased to a low of 3.60% in FY2020/21 amid cautious spending and controlled price levels. However, inflation rose again in FY2021/22 and FY2022/23—reaching 7.74%—due to global commodity volatility and food price increases. By FY2023/24, it dropped slightly to 5.44%. These trends show that inflation is

sensitive to both domestic shocks and global markets, and high rates can reduce real income and affect investment decisions, which are crucial for sustainable growth.

Figure 7

Population Growth Rate



Source: Nepal Rastra Bank

PGR gradually rose from 1.45% in FY2014/15 to 7.61% by FY2023/24, showing a significant uptick especially in the latter years. This rising trend may reflect more accurate demographic data, improved health conditions, or shifts in migration. A growing population can expand the labor force and domestic demand, but also increases the pressure on education, healthcare, housing, and public infrastructure. For Nepal, aligning population trends with inclusive economic policies and capacity building will be key to harnessing demographic growth for future prosperity.

Table 2

Descriptive Statistics of the Study

	RGDP	IRR	IDR	EDR	GCFR	PGR
N	10	10	10	10	10	10
Mean	4.16	5.96	14.51	18.01	34.31	1.4
Median	4.40	5.79	13.75	18.01	33.41	30.00
Std. Deviation	3.43	1.93	5.20	3.62	4.47	7.37
Range	11.40	6.32	12.99	8.50	13.13	20.00
Minimum	-2.40	3.60	8.12	13.45	28.24	20.00
Maximum	9.00	9.92	21.11	21.95	41.37	40.00

(Source: SPSS Output)

Table 2 presents the descriptive statistics for the variables included in the study, based on a sample of ten observations (N = 10) for each variable. The dependent variable is the Real Gross Domestic Product (RGDP), while the independent variables include the Inflation Rate Ratio (IRR), Internal Debt Ratio (IDR), External Debt Ratio (EDR), Gross Capital Formation Ratio (GCFR), and Population Growth Ratio (PGR). These statistics offer an overview of the central tendency, dispersion, and range of the dataset. The mean value of RGDP is 4.16 percent, indicating the average real economic growth rate over the study period. However, the standard deviation is relatively high at 3.43, suggesting noticeable variation in economic growth across the years. The RGDP ranges from a minimum of -2.40 percent to a maximum of 9.00 percent, indicating instances of both economic contraction and significant expansion. The Inflation Rate Ratio (IRR) has a mean of 5.96 percent, with a minimum of 3.60 percent and a maximum of 9.92 percent. The standard deviation of 1.93 indicates moderate variability in inflation over the observed period. The Internal Debt Ratio (IDR) exhibits a mean of 14.51 percent and a standard deviation of 5.20, with values ranging from 8.12 percent to 21.11 percent. This reflects some degree of fluctuation in the government's reliance on internal borrowing. The External Debt Ratio (EDR) has a mean of 18.01 percent, a relatively small standard deviation of 3.62, and values ranging between 13.45 percent and 21.95 percent, suggesting moderate and more consistent external debt levels during the study period. The Gross Capital Formation Ratio (GCFR) shows a higher mean of 34.31 percent,

indicating a substantial contribution of capital investment to the economy. The standard deviation is 4.47, with a range from 28.24 percent to 41.37 percent, reflecting moderate fluctuations in investment activity. Lastly, the Population Growth Ratio (PGR) has a mean value of 29.00 percent, with a standard deviation of 7.37, indicating notable variability in population growth. The range is quite wide, from 20.00 percent to 40.00 percent, suggesting differences in demographic expansion during the period under review. Overall, the descriptive statistics indicate substantial variability in most variables, especially in RGDP, IDR, and PGR, which could significantly influence the dynamics of economic growth. These insights lay the foundation for further inferential analysis, including correlation and regression, to examine the relationships between public finance indicators and economic performance.

Table 3

Correlation Analysis of the Study

	RGDP	IRR	IDR	EDR	GCFR	PGR
RGDP	1					
IRR	-.633*	1				
IDR	-.223	-.122	1			
EDR	-.442	-.058	.959**	1		
GCFR	.804**	-.711*	-.115	-.284	1	
PGR	-.339	.771**	-.544	-.480	-.384	1

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

(Source: SPSS Output)

Table 3 presents the Pearson correlation coefficients among the study variables, indicating the strength and direction of linear relationships between Real Gross Domestic Product (RGDP) and selected macroeconomic indicators. A significant negative correlation exists between RGDP and Inflation Rate Ratio (IRR) ($r = -0.633$, $p < 0.05$), suggesting that higher inflation is associated with lower economic growth. Conversely, RGDP is strongly and positively correlated with Gross Capital Formation Ratio (GCFR) ($r = 0.804$, $p < 0.01$),

indicating that increased investment contributes significantly to economic growth. Weak and statistically insignificant negative correlations are observed between RGDP and both Internal Debt Ratio (IDR) (r = -0.223) and External Debt Ratio (EDR) (r = -0.442), implying minimal direct influence of debt levels on growth. Population Growth Ratio (PGR) also shows a weak negative association with RGDP (r = -0.339), suggesting a potential, though insignificant, pressure on growth. Among independent variables, a very strong positive correlation is observed between IDR and EDR (r = 0.959, $p < 0.01$), indicating a synchronized pattern in domestic and foreign borrowing, while IRR shows a significant negative correlation with GCFR (r = -0.711, $p < 0.05$) and a significant positive correlation with PGR (r = 0.771, $p < 0.01$), reflecting inflationary pressures associated with demographic growth and reduced investment.

Table 4

Model Summary of the Study

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.980[a]	.961	.912	1.01787

a. Predictors: (Constant), PGR, GCFR, IDR, IRR, EDR

(Source: SPSS Output)

Table 4 provides the model summary of the multiple regression analysis, showing the overall explanatory power of the independent variables—Inflation Rate Ratio (IRR), Internal Debt Ratio (IDR), External Debt Ratio (EDR), Gross Capital Formation Ratio (GCFR), and Population Growth Ratio (PGR)—on Real Gross Domestic Product (RGDP). The model exhibits a very high correlation coefficient (R = 0.980), indicating a strong linear relationship between the dependent and independent variables. The R Square value of 0.961 implies that approximately 96.1% of the variation in RGDP is explained by the model, demonstrating an excellent fit. The Adjusted R Square, which accounts for the number of predictors and sample size, is slightly lower at 0.912 but still indicates a high level of explanatory power. The standard error of the estimate is 1.01787, suggesting that the model's predictions of RGDP deviate from the actual values by about 1.02 percentage points on average. These

results indicate that the selected macroeconomic variables collectively provide a strong explanation of economic growth within the study period.

Table 5

Anova Table of the study

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	101.980	5	20.396	19.686	.006
	Residual	4.144	4	1.036		
	Total	106.124	9			

a. Dependent Variable: RGDP

b. Predictors: (Constant), PGR, GCFR, IDR, IRR, EDR

(Source: SPSS Output)

Table 5 presents the ANOVA (Analysis of Variance) results for the multiple regression model, which evaluates the overall statistical significance of the relationship between the dependent variable, Real Gross Domestic Product (RGDP), and the set of independent variables: Inflation Rate Ratio (IRR), Internal Debt Ratio (IDR), External Debt Ratio (EDR), Gross Capital Formation Ratio (GCFR), and Population Growth Ratio (PGR). The regression sum of squares is 101.980 with 5 degrees of freedom (df), while the residual sum of squares is 4.144 with 4 df, resulting in a total sum of squares of 106.124. The mean square for the regression is 20.396, and the F-statistic is 19.686 with a significance level (p-value) of 0.006. Since the p-value is less than 0.01, the model is statistically significant at the 1% level, indicating that the combined effect of the independent variables on RGDP is not due to chance and that the model as a whole is a good fit for the data.

Table 6

Regression Coefficient of the Study

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	37.975	10.376		3.660	.022
	IRR	-1.222	.478	-.688	-2.556	.063
	IDR	1.543	.336	2.339	4.592	.010
	EDR	-2.574	.486	-2.719	-5.295	.006
	GCFR	-.115	.166	-.149	-.689	.529
	PGR	.048	.109	.103	.438	.684

a. Dependent Variable: RGDP

Table 6 displays the regression coefficients of the study, showing the individual contribution of each independent variable to the prediction of Real Gross Domestic Product (RGDP). In this study, the regression model used to examine how economic indicators affect Nepal's Real Gross Domestic Product (RGDP). The model begins with a statistically significant constant (B = 37.975, p = .022), representing the baseline level of RGDP when all variables are set to zero. Among the predictors, the Internal Debt Ratio (IDR) has a strong positive impact on GDP (Unstandardized Coefficient B = 1.543; Standardized Beta = 2.339; t = 4.592; Sig. = .010), suggesting that increased domestic borrowing is closely linked with higher economic growth. In contrast, the External Debt Ratio (EDR) shows a significant negative effect (B = -2.574; Beta = -2.719; t = -5.295; Sig. = .006), meaning a one-unit rise in foreign debt may lead to a 2.574 percentage point decline in GDP, highlighting the importance of managing external borrowing carefully. The Inflation Rate Ratio (IRR) also has a negative coefficient (B = -1.222; Beta = -0.688; t = -2.556; Sig. = .063), which, although just above conventional significance levels, indicates that rising inflation could weaken GDP growth. Meanwhile, Gross Capital Formation Ratio (GCFR) has a small and statistically insignificant effect (B = -0.115; Beta = -0.149; t = -0.689; Sig. = .529), suggesting that investment alone may not drive growth unless efficiently utilized. Lastly, Population Growth Ratio (PGR) also shows a weak influence (B = 0.048; Beta = 0.103; t =

0.438; Sig. = .684), implying that population increases, without matching productivity or infrastructure expansion, do not contribute meaningfully to GDP in this model. Overall, these results underscore the pivotal roles of debt composition and inflation control in shaping Nepal's economic development.

4.2 Discussion

Based on the correlation and regression, this study explored the impact of various macroeconomic and fiscal indicators namely Inflation Rate Ratio (IRR), Internal Debt Ratio (IDR), External Debt Ratio (EDR), Gross Capital Formation Ratio (GCFR), and Population Growth Ratio (PGR) on Nepal's Real Gross Domestic Product (RGDP) from 2015 to 2024. The findings are consistent with, and at times diverge from, prior empirical studies conducted in similar or broader contexts. The positive and statistically significant effect of GCFR on RGDP in this study aligns with the findings of Aisyah et al. (2024), who emphasized that infrastructure spending in Indonesia boosted short-term GDP via construction activity while enhancing long-term productivity. In both cases, capital formation emerges as a key driver of growth, particularly in developing economies. The similarity stems from the shared developmental context and the pivotal role that capital investment plays in overcoming structural bottlenecks. However, the negative but insignificant relationship between IRR and RGDP contrasts with Ho, Tran, and Nguyen (2023), who reported a modest yet positive link between tax revenue (which often correlates inversely with inflation) and growth. This discrepancy could be attributed to Nepal's weak inflation management system and poor monetary-fiscal coordination, which may have caused inflation to undermine purchasing power and savings without triggering compensatory fiscal responses. The negative impact of EDR on RGDP, though statistically insignificant, supports the long-term crowding-out hypothesis observed in Yusuf and Mohd (2021), who found that external debt positively affects short-term growth but hampers long-term development due to vulnerability to global shocks. The similarity is explained by both studies' contexts—developing, debt-dependent economies where external liabilities often carry heavy repayment burdens. In contrast, the positive coefficient for IDR differs from Upadhyaya and Pun (2022), who found no significant relationship between internal debt and GDP growth in Nepal. This deviation might result from the different time frames and the changing structure of Nepal's domestic

debt management after federalization, which potentially improved the productivity of internal borrowings in the recent decade. The positive and significant effect of PGR on RGDP is consistent with the findings of Nhemhafuki (2023), who reported that population growth contributes positively to GDP, particularly in developing nations. The similarity lies in the demographic dividend these countries often experience when a growing labor force translates into increased production and consumption, provided institutional capacity can absorb and utilize it.

Interestingly, this study's findings partially contradict Bhattarai (2025), who revealed that despite ongoing government spending, Nepal's agricultural sector showed a significant decline in its GDP share. While Bhattarai's sector-specific study found limited returns on agricultural investment, our broader macro-level analysis shows that capital formation and population dynamics can still drive overall economic growth, indicating that other sectors may be compensating for agriculture's decline. Comparisons can also be drawn with Dhungel (2021), whose study affirmed the effectiveness of infrastructure and education spending in Nepal. While GCFR here includes infrastructure investments and shows a significant positive effect, this study does not isolate education-related capital, which could have further explained differences in elasticity. Lastly, the importance of fiscal quality, emphasized in Akoley, Wahid, and Kulo (2022) and Dangal and Gajurel (2021), resonates with the relatively weak performance of debt variables (IDR and EDR) in our regression. These findings reinforce the notion that not all spending or borrowing translates equally into growth; effective implementation, sectoral allocation, and institutional frameworks are key.

CHAPTER-V
SUMMARY, CONCLUSION, IMPLICATIONS

5.1 Summary

This thesis critically examines the relationship between public finance and economic growth in Nepal, focusing on key fiscal indicators like revenue (both tax and non-tax), government expenditure (capital and recurrent), total financing, and public debt. Despite notable structural changes in Nepal's economy over the past three decades, such as improvements in trade and financial systems, the country continues to experience slow and unstable GDP growth. The study attributes these challenges to factors like high import dependency, inefficient public spending, inflationary pressures, fiscal deficits, and poor policy implementation. The research adopts a causal-comparative and descriptive design, relying entirely on secondary data from the Ministry of Finance and related sources. A variety of statistical tools are applied to evaluate the data: mean, standard deviation, correlation coefficients, multiple regression models, and ANOVA testing. These methods help analyze the strength, direction, and statistical significance of relationships between fiscal indicators and GDP.

The findings reveal several important insights. Revenue collection has shown steady growth, especially in tax components, though the system still leans heavily on indirect taxation. Recurrent expenditure dominates government spending, often at the cost of capital investment, which is crucial for long-term development. While capital expenditure has increased gradually, its impact remains constrained due to inefficiencies and delays. Public debt has risen sharply in recent years, creating concerns over fiscal sustainability. Although a positive correlation between public finance and GDP is observed, the study warns against assuming direct causality arguing that variables like governance quality, political stability, and institutional capacity significantly influence outcomes. Overall, the thesis concludes that public finance tools can positively affect GDP, but their effectiveness depends heavily on sound fiscal management, strategic prioritization of expenditures, and institutional reform. These findings offer valuable guidance for policymakers, economists, and academics seeking to foster more robust and inclusive economic growth in Nepal.

5.2 Conclusion

This study shows that public finance has a strong but mixed effect on Nepal's economic growth. Internal debt was found to help boost GDP (B = 1.543, p = 0.010), meaning borrowing within the country can support development if used wisely. On the other hand, external debt (B = -2.574, p = 0.006) and inflation (B = -1.222, p = 0.063) had negative effects, showing that too much foreign borrowing and rising prices can slow down growth. Although investment (gross capital formation) and population growth are important in theory, they didn't show a strong impact in this study. The overall model explained 96.1% of the changes in GDP (R^2 = 0.961), which means the selected financial indicators are closely linked to economic performance. In short, Nepal's growth depends not just on how much the government spends or borrows, but on how well those resources are managed. Careful planning, smart investment, and keeping inflation under control are key to making public finance work for the country's future.

5.3 Implications

The insights from this research extend beyond academic value they offer practical applications for multiple stakeholders. For policymakers and government officials, the thesis underlines the need for stronger fiscal discipline and better allocation of public spending. It encourages a shift toward more productive capital expenditures and cautions against excessive reliance on recurrent spending and public borrowing. These lessons can help shape policies that balance short-term operational needs with long-term development goals.

For investors and financial analysts, the findings highlight the importance of monitoring fiscal indicators like total revenue and public debt when assessing the health and growth potential of Nepal's economy. Understanding how these factors correlate with GDP helps build better investment strategies and manage risks more effectively.

Academics and researchers will find this work valuable for its methodological approach, particularly its use of correlation, regression, and ANOVA to measure economic relationships. It also identifies important gaps like the limited use of advanced econometric tools and the lack of attention to post-federalization dynamics opening doors for more focused studies in the future.

Lastly, development professionals and institutional advisors working in Nepal or similar economies can draw on this research to design financial frameworks and reforms that are tailored to unique structural challenges, such as limited absorptive capacity and governance constraints.

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APPENDIX

FY	RGDP	IR	DBR	EDR	GCF	PGR
2014/15	4.0	7.21	8.12	14.16	31.27	1.45
2015/16	0.4	9.92	8.97	14.91	28.24	0.00
2016/17	9.0	4.47	9.22	13.45	37.32	1.09
2017/18	7.6	4.15	11.31	15.22	39.55	1.81
2018/19	6.7	4.64	11.74	15.42	41.37	2.90
2019/20	-2.4	6.15	15.77	21.08	30.44	3.99
2020/21	4.8	3.60	18.39	21.47	35.16	4.71
2021/22	5.6	6.32	19.78	20.61	37.64	5.80
2022/23	2.0	7.74	21.11	21.88	31.66	6.88
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