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External Debt and Internal Debt Impact on the Growth of the Nepalese Economy

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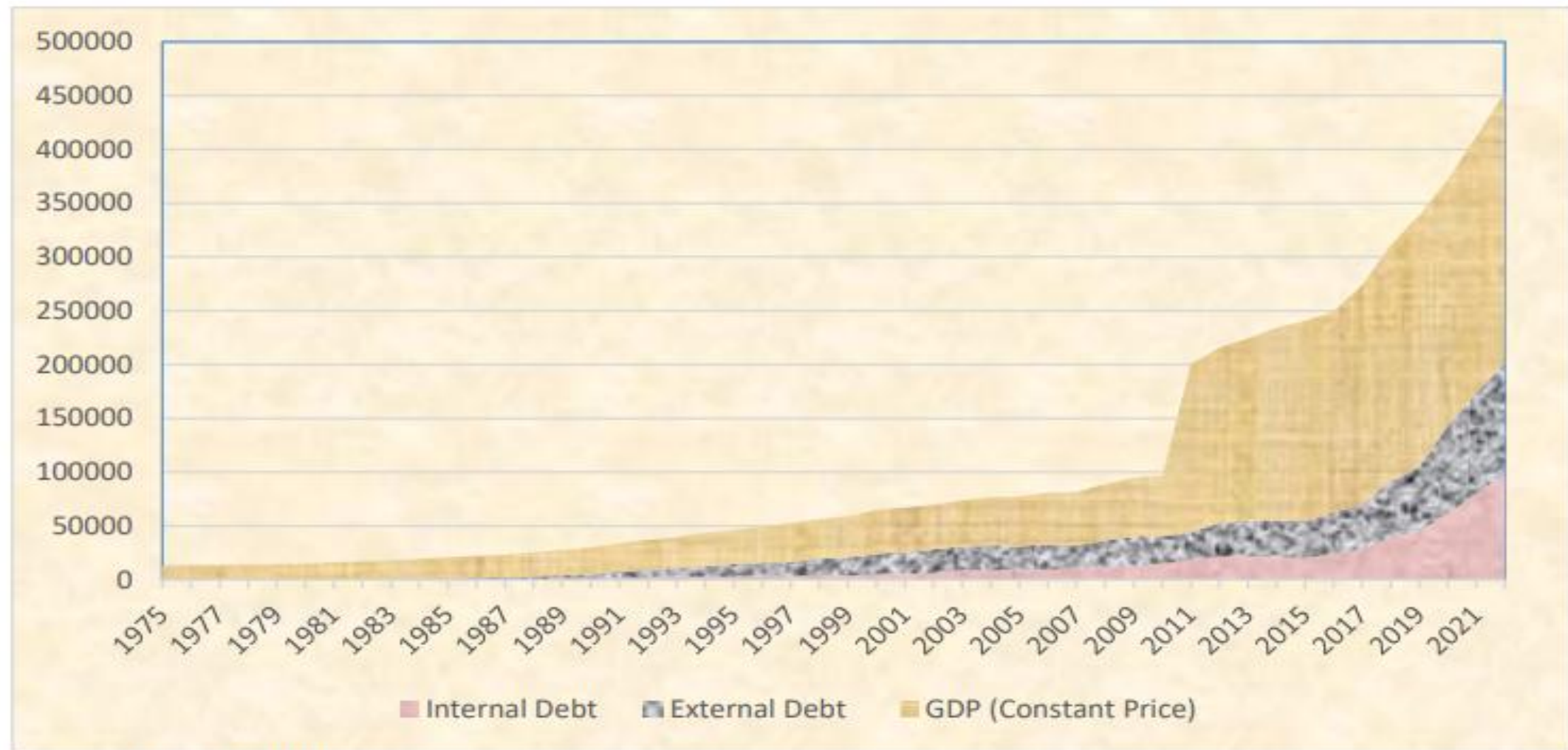
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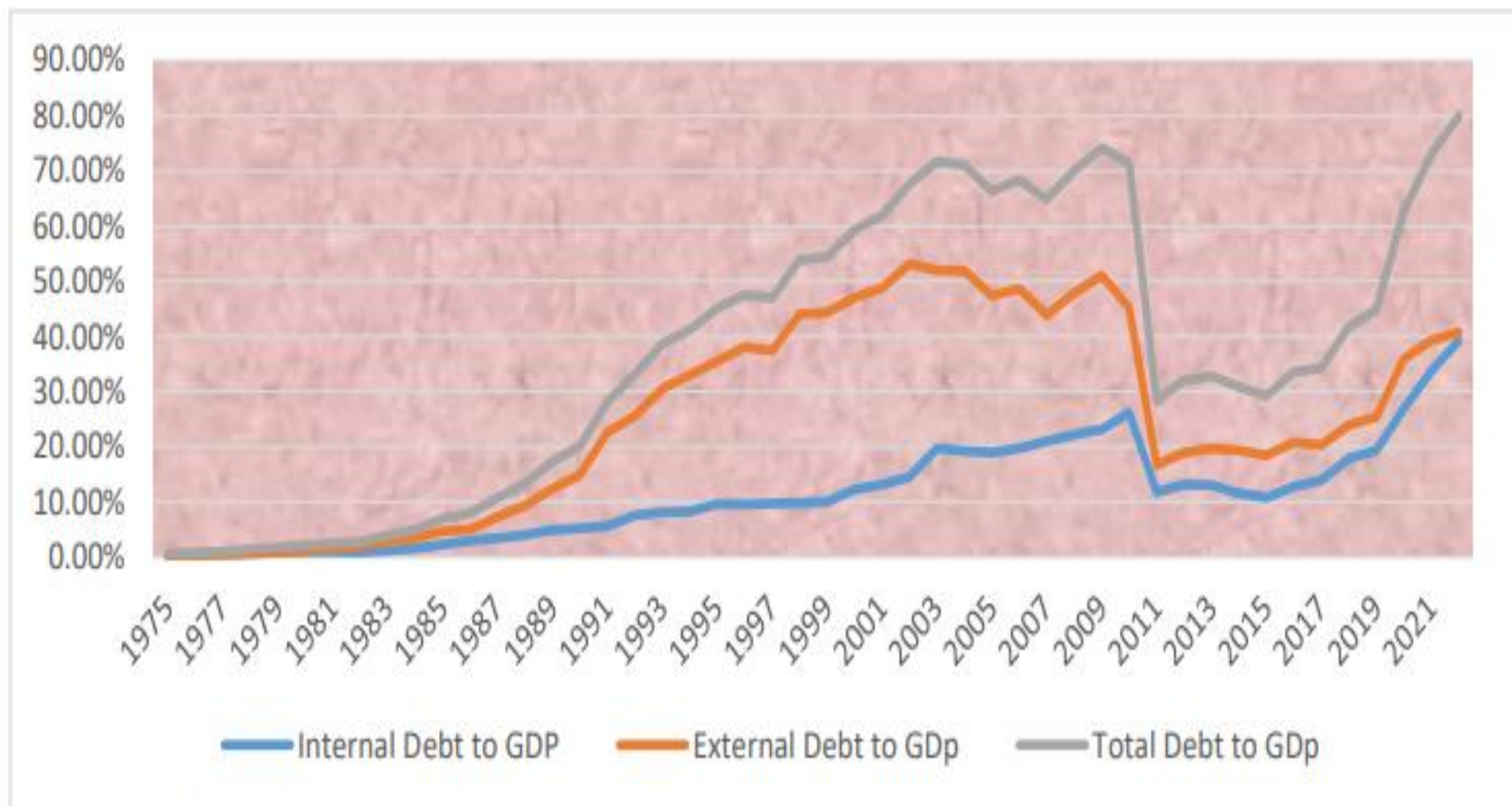
Introduction

- The majority of classical economists opposed borrowing and thought that the government should only have a minimal role in promoting responsible lending. B
- Foreign debt causes a “transfer” concern. Foreign borrowing is usually accompanied with vulnerability that may result in debt crises since central banks in developing countries are unable to produce the hard currency required to repay external debt. Governmental responsibilities have significantly increased as the welfare state concept has developed (Sharma, 2014).
- The sources of government revenue include taxation, money printing, taking out domestic or foreign loans, or utilizing previous budget surpluses.
- The question of whether or not foreign borrowing under the prevailing circumstances is beneficial for developing economies has been raised in consideration of the high level of debt and the poor rate of economic growth. Borrowing for consumption is perfectly acceptable for countries with significant assets or a reliable source of future revenue (Kröller, 1978).



Sources: Authors' calculation

Chart 1. Gross Domestic Product (Constant Price), Internal Debt and External Debt trend in Nepal (in Nepalese Rupees Ten Million)



Sources: Authors' calculation

- The above findings in charts 1 and 2 indicate the trend of gross domestic product (constant price), internal debt, and external debt over the period of 1975 to 2022. The contribution of internal debt, external debt, and total debt to the GDP of the country has been steadily rising over the years. Thought there was a slight fall between 2010 and 2011. The findings show that there has been a rising and falling trend in the values of internal and external debt relative to gross domestic product over the past 47 years.

Objectives

- To examine the impact of internal debt on economic growth of Nepal.
- To measure the impact of external debt on economic growth of Nepal.
- To identify whether the internal debt is impact on economic growth more or the external debt.

Methodology

- This studyThe research is based on secondary time series data collected from the years 1975 to 2022 A.D., and Nepal's GDP base year is 2000 A.D., so there were data sources from the ministry of finance, such as economic survey reports for various years. The internal debt, external debt, and real gross domestic product were all ten million Nepalese rupees.
- In Hansen (2014), the focus of econometric theory revolves around the creation and refinement of tools and techniques, as well as the examination of the characteristics of these methods. Econometrics relies on the creation of statistical techniques for estimating economic relationships, testing economic theories, and evaluating and implementing government and business policies (Wooldridge, 2009). While econometrics is commonly used for forecasting macroeconomic variables like interest rates, inflation rates, and gross domestic product, it can also be applied in various other economic domains beyond macroeconomic forecasting.

Research Findings

- The main objectives of this study is to specifically examine the impact of internal debt and external debt on economic growth in Nepal from mid July 1975 to mid-July 2022.
- The cointegration test, which utilized both the trace and max-eigen test statistics, revealed that there is no long-term association between the three variables at a 5% level of significance.
- Therefore, the null hypothesis of no co-integration is rejected, indicating that there is evidence to suggest that external debt, internal debt, and economic growth (GDP) are not co-integrated. The study utilizes the Ordinary Least Squares (OLS) method to establish a simple relationship between the variables under study.

Research Findings..

- The results reveal that external debt possesses a negative impact on the economic performance of Nepal, while internal debt has a positive impact on economic growth through encouraging productivity and output levels, as well as the evolution of total factor productivity.
- On the other hand the external debt is slowing down the economy more as compared to internal debt.

Recommendation

- Based on the findings of the study, recommendations are made. Firstly, the government should ensure economic and political stability in order to enjoy the benefits of external and internal debt and make the debt burden minimal.
- Secondly, the government should acquire internal debt largely for economic reasons rather than social or political ones. This would increase the productivity of the nation. Further, the government should focus on internal debt rather than external debt to boost the economic growth of Nepal.

Thank You!