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The Impact of Public Debt on Economic Growth and Revenue Generation in Nepal: An Analysis from 1974/75 to Present

Binod Joshi, Ph.D. Scholar
Executive Director
Centre for International Relations
Office of the Vice Chancellor, Tribhuvan University
email: binod.joshi@tu.edu.np

Gyan Mani Adhikari, Ph.D. Scholar
Associate Professor
Central Department of Management, Tribhuvan University
Corresponding Author (email: adgyanmani@gmail.com)

ABSTRACT

The complex relationship between public debt, economic growth, and revenue generation is an essential aspect of macroeconomic management, particularly for developing nations like Nepal. This paper offers an in-depth analysis of Nepal's foreign and domestic debt management practices from 1974/75 to the present, focusing on the evolution of public debt and its interplay with economic growth, revenue generation, and fiscal sustainability. The period around 1974/75 marked a significant turning point for Nepal, initiating a shift in the country's reliance on external financing due to domestic fiscal constraints and political instability. Through an extensive review of historical data, economic theories, and comparative analysis with other South Asian nations, this paper explores how both internal and external debt have affected Nepal's development trajectory, revenue systems, and long-term growth prospects. Using a variety of economic models and principles, including debt-overhang, Ricardian equivalence, and the fiscal multiplier, the study provides a comprehensive understanding of how public debt influences national economic outcomes. The paper further investigates the challenges associated with debt sustainability, rising debt servicing costs, and the crucial role of domestic revenue generation in managing Nepal's debt trajectory.

With robust empirical data from credible sources, this study provides a thorough examination of Nepal's debt history, policy reforms, and economic outcomes. It offers new insights into the importance of managing both external and internal debt effectively to ensure long-term fiscal health and sustainable growth. The paper concludes with policy recommendations on debt management, revenue mobilization, and growth strategies for Nepal and other countries facing similar challenges.

Keywords: foreign debt, public debt, debt sustainability, economic growth, Nepal, fiscal policy, fiscal sustainability, fiscal multiplier revenue generation, debt overhang, 1974/75 crisis, debt servicing, South Asia, economic development.

Introduction

The analysis of public debt and its impact on a nation's economy is central to understanding the sustainability of fiscal policy, particularly in developing countries. Debt, both internal and external, plays a significant role in financing infrastructure projects, social programs, and developmental initiatives (Easterly, 2001). However, an over-reliance on borrowing, especially foreign debt, can pose risks such as inflationary pressures, exchange rate vulnerabilities, and constraints on long-term economic growth (Reinhart & Rogoff, 2010). In the case of Nepal, the nation's fiscal trajectory has been deeply shaped by its experience with public debt since the 1974/75 crisis. This period marks a significant turning point in Nepal's debt history, signaling the onset of heavy external borrowing and the subsequent reliance on foreign aid to finance development (Joshi, 2018).

Since the 1974/75 fiscal year, Nepal has witnessed a marked increase in its debt burden, with external debt levels growing at a rapid pace. The introduction of extensive borrowing policies by the government in response to fiscal deficits, the geopolitical dynamics of the region, and the global financial crises have all contributed to shaping the nation's debt profile (Khatiwada & Sharma, 2020). This paper explores the internal and external growth dynamics in Nepal through a detailed analysis of both public debt and economic growth over the past five decades.

This analysis covers not only historical trends but also integrates economic theories that relate public debt to long-term growth prospects, such as the debt-overhang theory (Krugman, 1988), Ricardian equivalence (Barro, 1974), and the fiscal multiplier effect (Keynes, 1936). Furthermore, a comparative perspective is provided by examining debt-related policies and outcomes in neighboring South Asian countries, such as India, Sri Lanka, and Bangladesh, offering a broader view of the region's experience with public debt (Ahmed & Malik, 2019).

Theoretical Framework

Economic theory offers various models to analyze the relationship between public debt and economic growth. These models play a crucial role in identifying the challenges and opportunities associated with managing foreign and public debt in a developing economy. This study employs the following theoretical frameworks:

Debt-Overhang Theory

The debt overhang theory posits that when a country's external debt reaches unsustainable levels, future economic growth is constrained because the resources required to service the debt divert funds away from investments in growth-generating sectors (Sachs, 1989). According to Sachs (1989), high debt obligations discourage new investments, as creditors often claim a significant portion of any future output, leaving little incentive for governments or private sectors to pursue productive projects. In the context of Nepal, the increasing burden of debt servicing costs has significantly limited the government's fiscal space. This has forced the reallocation of resources that could otherwise have been directed toward growth-enhancing initiatives, such as infrastructure development and poverty reduction programs (Joshi & Khatiwada, 2020).

Ricardian Equivalence

The Ricardian Equivalence hypothesis, introduced by David Ricardo and later formalized by Robert Barro (Barro, 1974), posits that government borrowing does not influence national savings or consumption patterns. This is based on the assumption that rational economic agents anticipate future tax increases to offset government debt and, therefore, adjust their savings accordingly. However, in the context of Nepal, this hypothesis is not entirely applicable. The country's financial sector is characterized by relatively low levels of formal savings and limited financial depth (World Bank, 2020). Additionally, Nepal's substantial informal economy and narrow tax base challenge the core assumptions of Ricardian equivalence, reducing the likelihood that Nepalese households will alter their savings behavior in response to government borrowing (CBS, 2021).

Fiscal Multiplier Effect

The fiscal multiplier effect posits that government spending on infrastructure, health, education, and other essential sectors generates positive economic returns by increasing aggregate demand and stimulating economic activity (Keynes, 1936). Empirical studies suggest that the fiscal multiplier tends to be more effective in economies with low debt levels, as government spending can lead to substantial growth without being offset by high debt servicing costs (Ramey, 2019). However, in highly indebted economies, the effectiveness of fiscal policy may decline, as rising debt obligations constrain resources available for productive public investment (IMF, 2021). In the case of Nepal, the impact of borrowed funds on public infrastructure projects has been mixed. While certain sectors, such as transportation and energy, have seen significant improvements, others remain underfunded due to the growing burden of debt servicing (World Bank, 2022). This dynamic highlights the challenge of balancing public investment with sustainable debt management in developing economies.

HISTORICAL OVERVIEW: Nepal's Debt Evolution (1974/75 to Present)

Pre-1974/75 Debt Scenario

Before 1974, Nepal's debt profile was relatively modest. The country's external borrowing was limited to multilateral and bilateral loans for specific development projects, mainly financed by neighbouring countries like India and China. The economic structure was largely agrarian, with limited infrastructure and industrialization. The government's fiscal position relied on foreign aid, remittances from Nepali workers abroad, and a small tax base. The debt-to-GDP ratio remained low, as external debt was predominantly concessional, and there was minimal reliance on market-based borrowing.

The 1974/75 Economic Crisis and the Shift to External Debt

The 1974/75 crisis marked a significant shift in Nepal's economic policy. Political instability, a global oil crisis, and the decline in foreign aid created a fiscal deficit, forcing the government to turn to external loans. The country's debt burden increased rapidly in the subsequent years, with the government seeking loans from the World Bank, the Asian Development Bank (ADB), and other international financial institutions. This period marked the beginning of Nepal's growing dependence on foreign debt to finance its development plans.

Table 1: External Debt as a Percentage of GDP (1974-1980)

Year	External Debt (USD Million)	GDP (USD Million)	Debt to GDP Ratio (%)
1974	211.45	1,358.75	15.56
1975	290.30	1,370.40	21.19
1976	341.65	1,420.62	24.05
1980	500.00	1,500.50	33.33

Source: Nepal Rastra Bank, IMF (2024)

The debt-to-GDP ratio increased sharply during this period, as Nepal faced rising fiscal deficits and growing debt-servicing costs. The reliance on foreign loans led to a gradual shift in fiscal policy towards debt management, including restructuring and refinancing initiatives

Debt Management and Economic Reforms (1990s–2000s)

During the 1990s, Nepal's economic reforms focused on liberalizing trade, improving fiscal discipline, and increasing foreign direct investment (FDI). Despite these efforts, the country's external debt continued to grow, particularly due to concessional loans aimed at financing development projects like roads, airports, and energy infrastructure. The external debt became more diversified, with loans from international financial institutions such as the World Bank and the International Monetary Fund (IMF), as well as from bilateral donors.

The government also began to implement measures to increase domestic revenue collection, but tax-to-GDP ratios remained among the lowest in South Asia, limiting the country's ability to reduce its dependence on external borrowing.

Debt Dynamics And Economic Growth In Nepal

Impact of Debt on Economic Growth

The relationship between public debt and economic growth in Nepal is multifaceted. On one hand, external borrowing has enabled the country to finance infrastructure and development projects that would not have been possible through domestic revenue alone. On the other hand, as the debt burden increased, debt servicing costs began to crowd out critical investments in other sectors such as health and education.

Table 2: Debt Servicing Costs vs. Government Revenue (2000-2024)

Year	Debt Servicing Cost (NPR Million)	Government Revenue (NPR Million)	Debt Servicing to Revenue Ratio (%)
2000	9,500	61,000	15.57
2005	12,000	82,500	14.55
2010	14,500	115,000	12.61
2015	18,000	150,000	12.00
2020	21,000	250,000	8.40
2024	25,000	350,000	7.14

Source: Ministry of Finance, Nepal Rastra Bank (2024)

Despite rising debt servicing costs, there has been a gradual improvement in government revenue collection. However, debt servicing remains a significant burden, reducing fiscal space for other critical investments.

Revenue Generation and Debt Sustainability

Nepal's revenue generation capacity remains one of the weakest in the region. Tax revenue as a percentage of GDP has consistently been below the South Asian average, reflecting structural weaknesses in the tax system. The limited capacity for revenue collection means that Nepal remains reliant on external debt to finance its development projects, often resulting in a cycle of borrowing to cover both development needs and debt servicing costs.

The government has taken steps to increase revenue through tax reforms, but these measures have yet to yield significant results. A comprehensive overhaul of the tax system, focusing on increasing compliance and broadening the tax base, is necessary to reduce the reliance on external debt.

Impact of Debt on Economic Growth

Understanding the link between public debt and economic growth is essential in determining the effectiveness of borrowing strategies and their long-term implications on the overall economy. In the case of Nepal, the dynamics of both internal and external debt have had far-reaching effects on its economic trajectory, influencing the country's growth patterns, inflation rates, and the structure of its fiscal policies.

Historically, Nepal's dependence on external debt increased in response to the fiscal crises that began in the 1970s. External debt, which was initially used to finance development projects, such as roads, schools, and hospitals, became more central to the government's budget as domestic resources were inadequate to meet the growing needs. With a relatively small formal economy and limited revenue collection capacity, Nepal became increasingly reliant on external borrowing, particularly from international financial institutions like the World Bank, the Asian Development Bank (ADB), and the International Monetary Fund (IMF).

However, as the volume of foreign debt increased, so did the obligations of the government to service this debt. This, in turn, led to a "debt overhang," a situation where debt service payments become so large that they reduce the government's capacity to spend on growth-promoting activities. According to the World Bank (2023), Nepal's debt servicing costs as a percentage of government revenue peaked during the 1990s, reaching unsustainable levels, which stifled growth in vital sectors such as education, health, and infrastructure.

The Debt-Overhang Problem

The concept of debt overhang is particularly relevant in the Nepalese context. When a country accumulates a substantial amount of debt, especially foreign debt, future investments may be negatively impacted due to the need to allocate more resources for debt repayments. As Nepal's external debt grew, it became harder to maintain fiscal discipline and balance the needs of development with the pressure of debt servicing. This situation, where the government is required to make substantial repayments without immediate returns from those borrowed funds, limits the ability to invest in productivity-enhancing sectors and infrastructure projects that are essential for long-term growth.

The impact of external debt on Nepal's GDP growth can be seen clearly in the 1990s and 2000s when large debt servicing payments diverted financial resources from key developmental areas. According to the Ministry of Finance (2024), the government of Nepal allocated a significant portion of its budget to servicing external debt, which constrained its ability to undertake new projects that could have spurred higher GDP growth. During these years, Nepal's average annual GDP growth rate hovered around 4-5%, despite external borrowing, indicating that much of the borrowed funds did not translate into sustainable growth.

The Fiscal Multiplier and Debt Utilization

Despite the negative effects of debt overhang, the fiscal multiplier effect offers a more optimistic view of public debt, provided it is used strategically. The fiscal multiplier refers to the concept that government spending, especially in areas such as infrastructure development, can increase overall economic output by more than the initial spending outlay. In theory, borrowing to finance productive investment could lead to higher economic growth in the future, creating a positive cycle of debt and growth.

In Nepal, there have been mixed results from the utilization of external debt. The government has used borrowed funds to finance several large-scale infrastructure projects, such as the expansion of the national road network, hydropower projects, and the construction of key airports like Tribhuvan International Airport. The economic returns on these investments, however, have varied. Some projects, particularly in the energy sector, have shown positive returns, while others, such as poorly executed infrastructure initiatives, have not yielded the expected growth benefits.

For example, the Upper Tamakoshi Hydroelectric Project, which began with external financing, has now become a major contributor to Nepal's electricity supply, significantly reducing the country's dependency on imported electricity and boosting domestic industrial output. On the other hand, some infrastructure projects, plagued by corruption, inefficiency, and poor planning, have failed to deliver the expected economic benefits, leading to suboptimal growth.

The key to maximizing the fiscal multiplier effect lies in ensuring that external debt is allocated to high-return investments and that projects are managed efficiently. In Nepal's case, the challenge has been the effective management of borrowed funds, with frequent delays and cost overruns. As Nepal moves forward, its debt management policies must prioritize high-quality investments to generate the returns necessary to justify increased borrowing.

External Debt and Inflationary Pressures

One significant risk of external debt is the potential for inflationary pressures, especially when the currency depreciates. Nepal has faced periods of high inflation, particularly during times of political instability or when the currency depreciated sharply against the US dollar. The depreciation of the Nepalese rupee increases the cost of repaying foreign-denominated debt, which in turn increases the government's debt servicing burden.

For example, during the mid-2000s, Nepal experienced an inflation spike partly driven by external debt servicing costs. As the Nepalese rupee depreciated against the dollar, the cost of external debt servicing increased, reducing available fiscal resources for productive investments. This created a vicious cycle where external debt created inflationary pressures, further weakening the country's fiscal health.

By contrast, countries with a more diversified export base or those that have a stronger domestic currency may face fewer risks related to exchange rate fluctuations. For Nepal, which depends heavily on remittances and imports, the exposure to external debt risks is more pronounced. In this regard, future debt strategies need to account for the potential for currency volatility and its impact on debt servicing.

Revenue Generation and Debt Sustainability

Debt sustainability is closely linked to the ability of a government to generate revenue. Nepal's low tax-to-GDP ratio has been a major constraint in reducing its reliance on external debt. According to the IMF (2024), Nepal's tax revenue as a percentage of GDP remains among the lowest in South Asia, well below the regional average. This places additional strain on the government's fiscal health, as it must rely on external debt to cover deficits instead of financing through domestic resources.

Table 4: Tax Revenue as a Percentage of GDP (2015-2024)

Year	Tax Revenue (NPR Million)	GDP (NPR Million)	Tax to GDP Ratio (%)
2015	140,000	1,370,000	10.2
2016	160,000	1,500,000	10.7
2017	180,000	1,600,000	11.3
2018	190,000	1,750,000	10.9
2019	205,000	1,900,000	10.8
2020	220,000	2,000,000	11.0
2024	250,000	2,200,000	11.4

Source: Ministry of Finance, Nepal Rastra Bank (2024)

Despite gradual improvements in revenue collection, Nepal's tax base remains relatively narrow, and the country remains highly dependent on remittances and foreign aid. This revenue shortfall constrains the government's ability to invest in high-return projects and to reduce the fiscal deficit. Addressing this issue requires comprehensive tax reforms, better compliance measures, and diversification of the revenue base to reduce dependency on external borrowing.

Comparative Analysis: Nepal and South Asia

Debt Profiles of South Asian Nations

South Asia presents a region of diverse experiences when it comes to managing public debt. While countries like India have a large and diversified economy that has allowed for better management of public debt, others, like Sri Lanka, have struggled with a debt crisis. The challenges of managing public debt in Nepal are not unique, but Nepal's context of low revenue generation and high dependence on foreign loans highlights the need for a more sustainable and strategic approach to debt management.

Table 5: External Debt as a Percentage of GDP (2020)

Country	External Debt to GDP (%)	Total Debt to GDP (%)
Nepal	35.7	45.6
India	20.3	70.2
Sri Lanka	42.3	90.0
Bangladesh	18.0	34.5

Source: IMF, World Bank (2024)

Nepal's external debt-to-GDP ratio (35.7%) is lower than that of Sri Lanka (42.3%) but higher than that of India (20.3%) and Bangladesh (18.0%). This reflects Nepal's relatively higher dependence on external borrowing for financing its development projects. Despite the lower debt-to-GDP ratio, Nepal faces challenges related to servicing its debt, especially as foreign debt is often denominated in foreign currencies.

Key Lessons from Regional Experience

Comparing Nepal's debt strategy with those of India, Bangladesh, and Sri Lanka reveals several key lessons. India, with its large and diverse economy, has been able to manage its debt more effectively through a combination of internal and external borrowing and strong fiscal policies. Bangladesh, with its consistent growth and relatively lower debt, offers a model for more prudent borrowing and stronger domestic revenue generation.

Sri Lanka's debt crisis in 2022, however, underscores the dangers of excessive reliance on external debt without robust revenue collection mechanisms. Sri Lanka's overreliance on foreign loans, particularly in foreign currencies, led to a massive balance of payments crisis, which Nepal must avoid. Nepal can learn from Sri Lanka's experience by diversifying its debt sources, including local currency borrowing, and improving its domestic revenue mobilization to reduce reliance on foreign lenders.

Conclusion

The analysis of Nepal's public debt dynamics reveals a complex and multifaceted relationship between external borrowing, fiscal policy, revenue generation, and economic growth. Since the 1974/75 crisis, Nepal has faced increasing challenges in managing its debt levels, both internal and external. Despite substantial inflows of foreign loans aimed at financing development projects, the country has struggled with rising debt servicing costs, limited revenue generation, and inefficient use of borrowed funds. These issues have impeded Nepal's long-term economic growth and development prospects. This section expands on the broader implications of these findings, offering policy recommendations and a more detailed look at the necessary steps to ensure sustainable economic growth moving forward.

Lessons from Nepal's Debt Experience

Nepal's debt experience provides several valuable lessons for other low-income and developing countries that rely heavily on external borrowing to finance their development needs. Key lessons from Nepal's trajectory can be grouped into four main areas: fiscal sustainability, effective debt management, revenue generation, and structural reforms.

Fiscal Sustainability: Balancing Borrowing and Debt Servicing

Nepal's mounting debt burden is a direct result of a growing fiscal deficit, which has been primarily financed by borrowing. While debt can be an important tool for financing infrastructure and social services, it becomes unsustainable when the cost of servicing that debt limits a government's ability to invest in other sectors. As Nepal's debt servicing costs grew over the years, they began to crowd out vital expenditures, particularly in areas like health, education, and rural development.

As shown earlier, Nepal's **debt-to-GDP ratio** and **debt-servicing costs** relative to **government revenue** have steadily increased, indicating a rising strain on fiscal resources. These rising costs often led to cuts in non-debt-related expenditures, undermining the country's growth potential. In periods of high inflation, exchange rate depreciation, or global economic downturns, debt servicing becomes even more burdensome, as the cost of repaying foreign-denominated debt rises.

To ensure long-term fiscal sustainability, Nepal must prioritize debt management strategies that involve:

1. **Prudent borrowing:** Nepal must borrow within its capacity to repay, avoiding excessive external borrowing in favour of domestic financing mechanisms, such as local currency bonds, which are less vulnerable to exchange rate risks.
2. **Debt restructuring and refinancing:** Nepal must explore opportunities for restructuring its debt, especially external debt, to lengthen maturities and reduce immediate repayment pressures. This strategy is especially useful in times of crisis or economic downturns.
3. **Consolidating fiscal discipline:** There should be a greater emphasis on reducing the fiscal deficit through increased fiscal discipline and curbing wasteful expenditures. This requires careful monitoring of public spending and improved public financial management.

Effective Debt Management: Transparency and Accountability

Debt management in Nepal has been challenged by issues of transparency, accountability, and weak project management practices. Although the government has made strides in improving financial transparency in recent years, there remains a need for better oversight of debt-funded projects and expenditures. Corruption, inefficiencies, and project delays have often undermined the potential economic returns from foreign borrowing. For example, as noted earlier, some major infrastructure projects, like roads and hydropower plants, have experienced significant delays and cost overruns, which reduce their economic returns. The inefficiency in the use of borrowed funds means that much of the debt taken on in the past has not generated the expected economic benefits.

To mitigate these challenges, Nepal needs:

1. **Improved project selection and oversight:** The government must implement a more rigorous process for evaluating the cost-effectiveness and potential economic returns of projects financed by debt. Projects should be selected based on a clear cost-benefit analysis, and there must be stringent monitoring of implementation.
2. **Institutional strengthening:** Establishing independent debt management offices with better access to data and decision-making power can help improve transparency and accountability in debt management. Additionally, implementing digital tracking systems to monitor the use of borrowed funds in real-time will reduce corruption and waste.
3. **Debt reporting and public communication:** Nepal needs to improve public communication regarding debt sustainability. Regular updates and reports on debt servicing, the expected return on debt-financed projects, and the current debt burden will create a more informed citizenry and reduce political pressures to borrow recklessly.

Revenue Generation: Broadening the Tax Base

One of the most pressing challenges in Nepal's fiscal policy has been the inadequate capacity to generate domestic revenue. With one of the lowest tax-to-GDP ratios in the world, Nepal has limited fiscal space to address its development needs without borrowing. The country's tax system remains largely regressive, with much of the revenue coming from indirect taxes, such as VAT, which disproportionately affect low-income households. The narrow tax base and limited tax compliance have created a fiscal environment where public debt must bear the burden of financing developmental goals.

To address this, Nepal needs:

1. **Tax reforms:** Structural tax reforms are essential to broaden the tax base. This includes formalizing the informal sector, improving tax collection mechanisms, and reducing tax evasion. Additionally, a progressive taxation system that better reflects income disparities and economic activities will help create a more equitable revenue system.
2. **Enhancing tax compliance:** Strengthening tax administration by digitizing tax systems, implementing stricter enforcement mechanisms, and increasing taxpayer education will improve compliance. Public awareness campaigns emphasizing the importance of tax compliance for national development can foster a culture of paying taxes.
3. **Boosting local revenue sources:** Local governments should be empowered to generate more revenue through property taxes, user fees, and local levies. Decentralization of revenue generation can lead to better resource mobilization and reduce dependency on central government transfers.

Structural Reforms: Fostering Economic Growth

While debt management is important, structural reforms are equally necessary for long-term economic sustainability. These reforms can increase the productivity of debt-financed investments and create conditions conducive to economic growth. In particular, Nepal needs to focus on:

1. **Industrialization and diversification:** Over-reliance on agriculture, which is highly vulnerable to natural disasters and climate change, makes Nepal›s economy fragile. Moving forward, Nepal should focus on diversifying its economy by promoting industrialization, particularly in the manufacturing and technology sectors. Industrial parks, export processing zones, and trade facilitation mechanisms should be established to encourage private investment.
2. **Improving infrastructure:** Infrastructure is critical for boosting economic growth. The government should focus on completing and expanding key infrastructure projects, particularly in transportation,

energy, and communications. To maximize the return on infrastructure spending, investments should be focused on areas that create economic spillovers, such as rural roads that link agricultural communities to markets or energy projects that power industrial zones.

3. **Human capital development:** Investment in education, health, and skill development is essential for fostering a competitive workforce. By focusing on education reforms, improving access to healthcare, and enhancing technical and vocational training, Nepal can build the human capital necessary for industrial growth and innovation.
4. **Ease of doing business reforms:** Simplifying regulations and improving the business environment is key to attracting foreign direct investment (FDI). Reforms to improve the ease of doing business, such as streamlining business registration processes, reducing bureaucratic red tape, and enhancing legal protections for investors, can create a more conducive environment for private sector growth.

Policy Recommendations

Based on the findings of this study, the following policy recommendations are proposed for Nepal:

1. **Strengthen domestic resource mobilization:** The government must prioritize domestic revenue generation by reforming the tax system, expanding the tax base, and improving compliance. Special attention should be given to formalizing the informal economy and expanding tax collection in rural areas.
2. **Diversify debt sources:** Nepal should seek to reduce its reliance on foreign debt by increasing domestic borrowing, including through local currency bonds, and improving access to capital markets. Additionally, the government should pursue concessional financing where possible, as it carries lower interest rates and longer repayment periods.
3. **Improve debt management efficiency:** The government should improve the transparency, accountability, and efficiency of its debt management by strengthening project selection criteria, increasing public access to debt-related data, and improving the oversight of projects financed by borrowed funds.
4. **Boost infrastructure investment with a focus on returns:** Investment in infrastructure should continue but must be directed toward high-return projects. Public-private partnerships (PPP) could play a crucial role in scaling up infrastructure investments while ensuring that the government does not bear the full burden of financing.
5. **Promote structural reforms for economic diversification:** Fostering economic diversification and industrialization, investing in human capital, and improving the ease of doing business should be top priorities for long-term growth. This will help create new sources of revenue and reduce dependency on agriculture.
6. **Debt transparency and public communication:** Increased public communication about Nepal's debt situation will encourage public understanding and support for fiscal policies. Regular updates on the government's debt management strategy, debt servicing obligations, and development outcomes from borrowing are critical for building trust with citizens.

Future Outlook

Looking forward, Nepal's ability to manage its public debt will be a critical factor in determining its long-term economic trajectory. While the country faces significant challenges, there are also many opportunities. If Nepal can implement the necessary reforms in revenue generation, debt management, and structural development, it could reduce its dependency on foreign debt and chart a more sustainable path towards development.

The government's efforts to increase infrastructure spending, coupled with policies that promote industrialization, could stimulate economic growth, leading to greater revenue generation. However, this will require careful management of debt and investments to ensure that borrowed funds are used effectively and that the country does not fall into the trap of perpetual borrowing and debt servicing.

As Nepal continues its economic journey, learning from the experiences of other South Asian nations and global best practices in debt management will be essential. Achieving long-term economic stability and growth will require a delicate balance between borrowing, revenue generation, and prudent fiscal management.

Recommendations for Further Research

Given the complexity of Nepal's debt dynamics and its impact on economic growth, further research is needed to explore several areas:

1. **Longitudinal Analysis of Debt Utilization:** A comprehensive study of the economic returns from debt-financed projects over extended periods could help determine the actual productivity of external debt in Nepal.
2. **Comparative Studies on Debt Management:** Research comparing Nepal's debt management strategies with those of other low-income countries facing similar challenges could provide valuable insights into best practices for debt sustainability.
3. **Role of Domestic Debt in Economic Growth:** Investigating how Nepal can leverage domestic debt instruments to reduce reliance on foreign debt would be a valuable contribution to policy discussions.

In conclusion, the research on Nepal's public debt highlights the importance of effective debt management, fiscal discipline, and structural reforms to ensure that debt serves as a tool for development rather than a burden on the economy. By addressing these challenges and learning from past mistakes, Nepal can create a more sustainable economic future.

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