PREFACE

Studies on the effect of monetary policy on inflation, particularly in Nepalese context, are not many. The objectives of monetary policy have been narrowed down to inflation control in several countries throughout the world. There are several determinants of inflation, and sometimes empirically difficult to find their validity at a point of time. Inflation forecasting, therefore, is an equally important issue for the conduct of monetary policy. Thus, there is a need for a new, more up-date study on this subject in the context of Nepal.

Three hypotheses are examined in this study: (a) inflation is a monetary phenomenon (Monetarist Hypothesis), (b) inflation is a fiscal deficit induced phenomenon (Keynesian Hypothesis), and (c) inflation is determined by structural factors (Structuralist Hypothesis). Besides, this study also throws light on a number of related issues such as identifying better forecasting model of inflation in Nepal, and testing statistically the robustness and stability of the inflation model estimated in this study.

This study is based on secondary data starting from FY1975/76 to FY2002/03, 28 years. The whole sample period is divided into two parts since FY1989/90 to examine structural shift in the policy regime. Two types of data frequencies (annual and quarterly) are taken for the examination of the above hypotheses. Annual data are used to test all the three hypotheses whereas quarterly data are used to examine the monetarist hypothesis only.

This thesis has seven chapters. The first chapter is on introduction. The second chapter discusses macro economic performance, monetary policy and inflation measurement in Nepal. The third chapter provides the literature review on the subject and fourth chapter the methodology of the study. The fifth chapter estimates and analyzes various models of inflation in Nepal. The sixth chapter
attempts to forecast of inflation in Nepal. The seventh chapter is on summary and conclusions.

This study was done under the supervision of Dr. T. R. Bishnoi. During the course of my study, I received tremendous encouragement and help from him. Indeed, I looked to him as more than a teacher. He spared his time as and when I made demands for the same. He maintained my enthusiasm and interest till the end of the research work. I am indebted to him for scholarly and affectionate guidance at every stage and for his feedback on my thesis. All in all, I owe him a life-time debt.

I am extremely thankful to Prof. B. S. Kantawala, Head, Department of Economics for her very scholarly advice, discussion and feedback on econometric analysis in my thesis. She always encouraged me and provided full support in my research work during the past three years. I sincerely acknowledge the support and help of Prof. R. J. Shah, Dean, Faculty of Arts. My thanks are due to the department teaching staffs, Prof. P. R. Joshi, Dr. V. K. Padaria, Dr. A. S. Rao, Dr. U. M. Naik, and Dr. A. S. Mehta. I would also like to thank Hemant, Bhupesh, and Maya, the administrative staffs of Department of Economics for their timely help and active cooperation during the course of my work. I also appreciate the help and co-operation I have received from the Librarian and the staff of the Hansa Mehta Library of the University. I am also thankful to Miss A. Chouhan, Department of English, for her cooperation in proof-reading that added greater clarity and consistency in my thesis.

I would like to thank my seniors at Nepal Rastra Bank Mr. T. R. Basyal, Dr. G. B. Thapa, Mr. R. P. Pandey, Mr. T. Pageni, Mr. A. K. Thakur, Mr. N. B. Thapa and Mr. S. P. Paudyal for inspiration, motivation and support during the course of my study. I am also grateful to my colleagues Mr. S. Adhikari and S. Sigdel who helped me generously in data collection. My grateful thanks are
also due to Dr. B. K. Upadhyay, Lecture, Trichandra College for providing useful suggestions for the initiation of my work.

My colleagues Dr. K. R. Bhetuwal, Mr. B P. Gautam, Mr. R. K. Sigdel and Mr. H. P. Neupane provided me inspirations, suggestions and constant support on several occasions during the course of my study. I thank them all.

I would put in a special category the debt I owe to my wife Goma, daughter Grishma and son Gaurav for their emotional and moral support I could never give them enough time which they rightfully deserved. In fact, they were a source of inspiration, encouragement and strength to me throughout this work. My brother-in-law, Mr. Suman also supported me in the course of this work. I express my indebtedness to my father Umapati and mother Tulshi for their divine blessings and constant encouragement to come to this stage.

Tap Prasad Koirala

Baroda, 2006.