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NATIONAL BUDGET ANALYSIS NEPAL

From Fiscal Year 2068/69 to Fiscal Year 2080/81

A Report by-
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National Budget Analysis-Nepal

1. Background-Brief History

Nepal's inaugural budget emerged following the conclusion of the Rana regime in B.S. 2008 (1951 A.D). Prior to this, there existed no clear distinction between the state's funds and the ruling Prime Minister's privy purse (Byaktigat Kharcha). The maiden economic budget for Nepal covered the period from March 1951 to February 1952, while subsequent budgets have been aligned with the Nepali fiscal year spanning from July to June, an arrangement that persists to this day. The initial budget was formulated in terms of Rupees, without differentiation between Nepali and Indian currency, owing to Nepal's adoption of a dual currency system, officially accepting both. The budget's structure closely resembled that of the Indian budget. Key sources of income included land tax, customs revenue, and forest revenues, with an estimated total revenue of Rs. 305 lakhs. In terms of expenditure, the budget was allocated into three main categories: public administration services, defense, and miscellaneous expenses, encompassing railway projects, hydroelectric installations, irrigation endeavors, and more. The total expenditure of the budget amounted to Rs. 525 lakhs.

2. Budget Summary

A summary of our recent budget is shown in the figure 1.

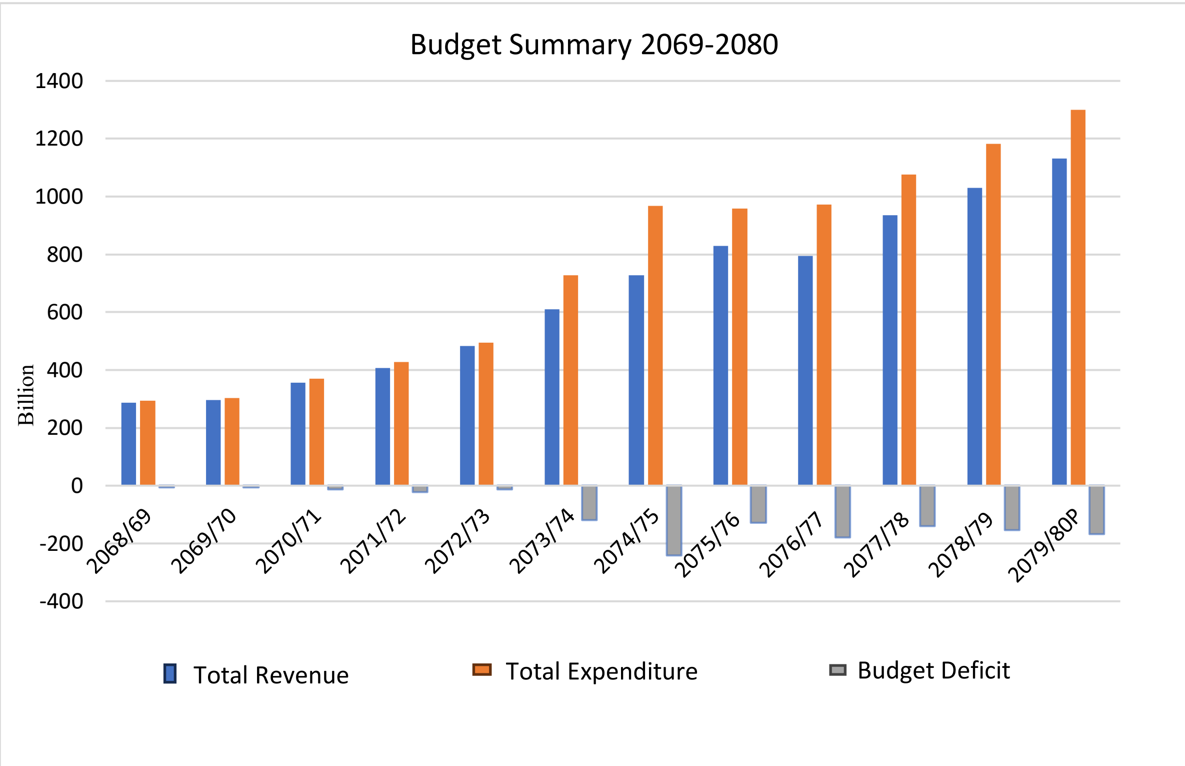


Figure 1:Budget Summary 2069-2080

3. Division of Budget

The budget of Nepal is categorized into three distinct components: current expenditure, capital expenditure, and financial arrangements. Current expenses primarily encompass salaries and benefits for employees, social security provisions, service fees, operational and maintenance costs related to capital assets, office equipment, travel expenses, as well as interest payments on internal and external loans. Capital expenditure, on the other hand, entails expenses associated with buildings and structures, public construction projects, vehicle and machinery costs, and the acquisition of security equipment. The financial arrangements component encompasses activities like loan investments, share investments, debt repayments through bonds, and foreign debt settlements. For a visual representation of this budget structure, please refer to figure 2.

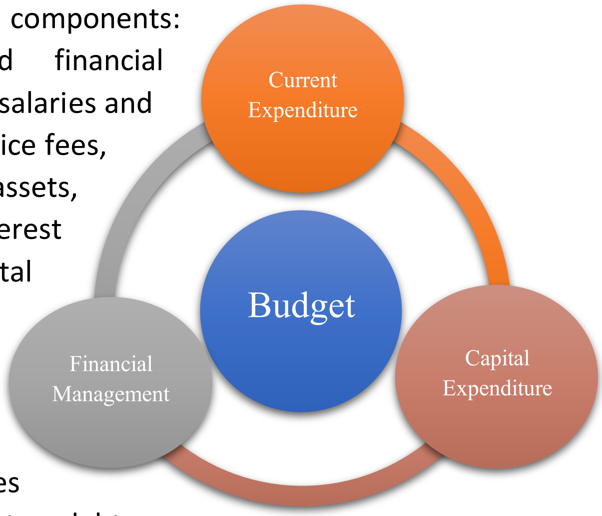


Figure 2:Division of Budget

4. Budget Size

Over the past decade, Nepal has witnessed a notable expansion in the size of its budget. However, despite this growth, the government's ability to effectively utilize the allocated funds has remained somewhat limited, with an average expenditure rate of 82 percent. In the previous fiscal year, the actual expenditure amounted to a total of fifteen kharba four arba and ninety-nine crore (Rs. 1.5 Trillion). Looking ahead to the next financial year, the allocated budget for 2080/81 stands at 17 kharba 51 arba 31 crore 21 lakh, representing a 3 percent decrease compared to the current fiscal year(2079/80) budget and a 16 percent increase compared to the revised budget.

The average growth rate of the actual budget from FY2069/70(of the past decade), it is also about 16%. A snapshot of the estimated and real expenditure is shown in figure 3 below.

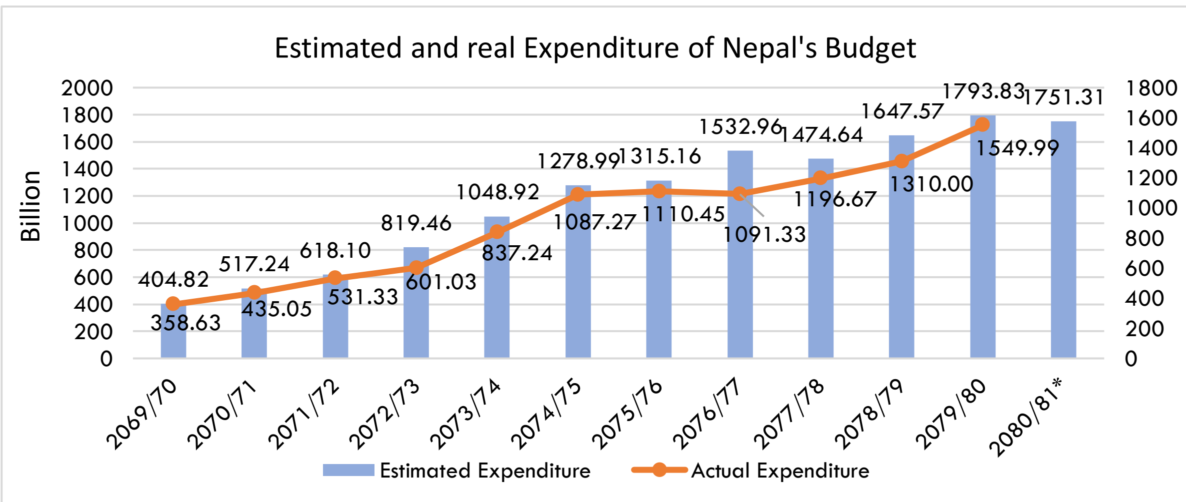


Figure 3: Estimated and Real Expenditure of the Budget

Figure 4 provides a comprehensive overview of the budget growth in both nominal and constant prices. It reveals that while the budget has experienced a substantial increase in nominal prices, expanding from approximately 4 kharba to 17 kharba (from FY2069/70 to FY2079/80), the growth at constant prices is found to be much less compared to the current prices showing high rate of price change over the year, for detail please refer to figure 4.

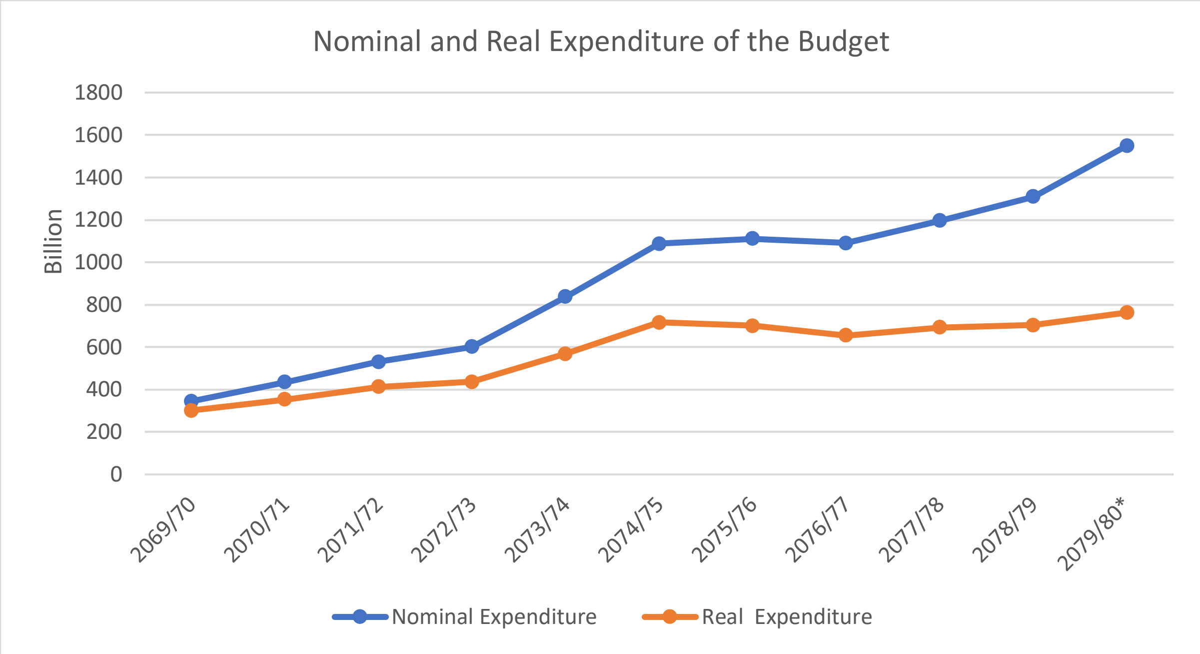


Figure 4: Nominal and Real Expenditure of the Budget

5. Captal and Current Expenditure

A comprehensive analysis of the expenditure trend over the past decade, as depicted in figure 5, reveals that approximately 67% of the total expenditure is allocated to current expenditure, representing the government's day-to-day operational costs. In contrast, only 15 to 20 percent of the budget is dedicated to capital expenditure i.e., development and construction work. Notably, current expenditure consistently surpasses capital expenditure in each fiscal year. This suggests that the government has prioritized meeting immediate operational needs, including salaries, maintenance, and administrative costs, rather than allocating substantial resources to long-term transformative projects. This focus on managing ongoing government functions may indicate a preference for maintaining stability and operational efficiency over making significant investments in large-scale projects. Furthermore, when comparing the growth rates of current and capital expenditure, it becomes evident that current expenditure has exhibited a more rapid rate of increase. This observation could indicate challenges in effectively managing operational costs or a growing demand for services that limits the government's capacity to invest in capital projects.

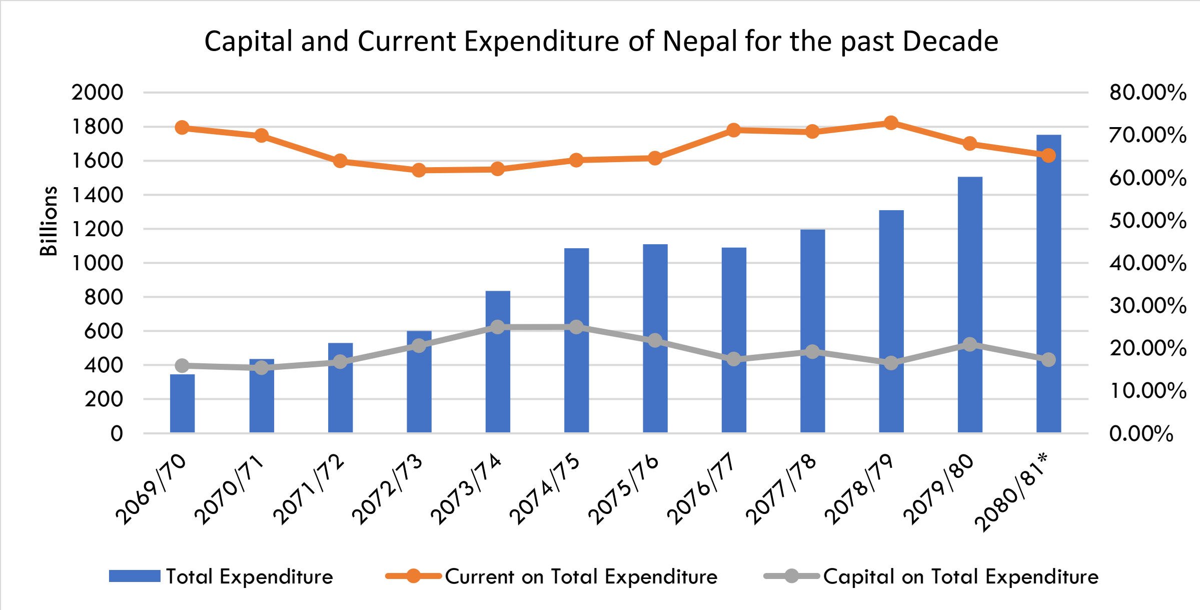


Figure 5: Expenditure of Budget into Capital and Current Sectors

While both current and capital expenditures are necessary, persistently high current expenditures may question the government's ability to allocate sufficient resources for long-term development. A balanced approach to ensure sustainable development and meet immediate needs would be desirable.

6. Income Management to Cover Expenditure

Nepal's economy has experienced a consistent growth in revenue, contributing an average of 60% to the total expenditure. However, this positive trend is overshadowed by concerning

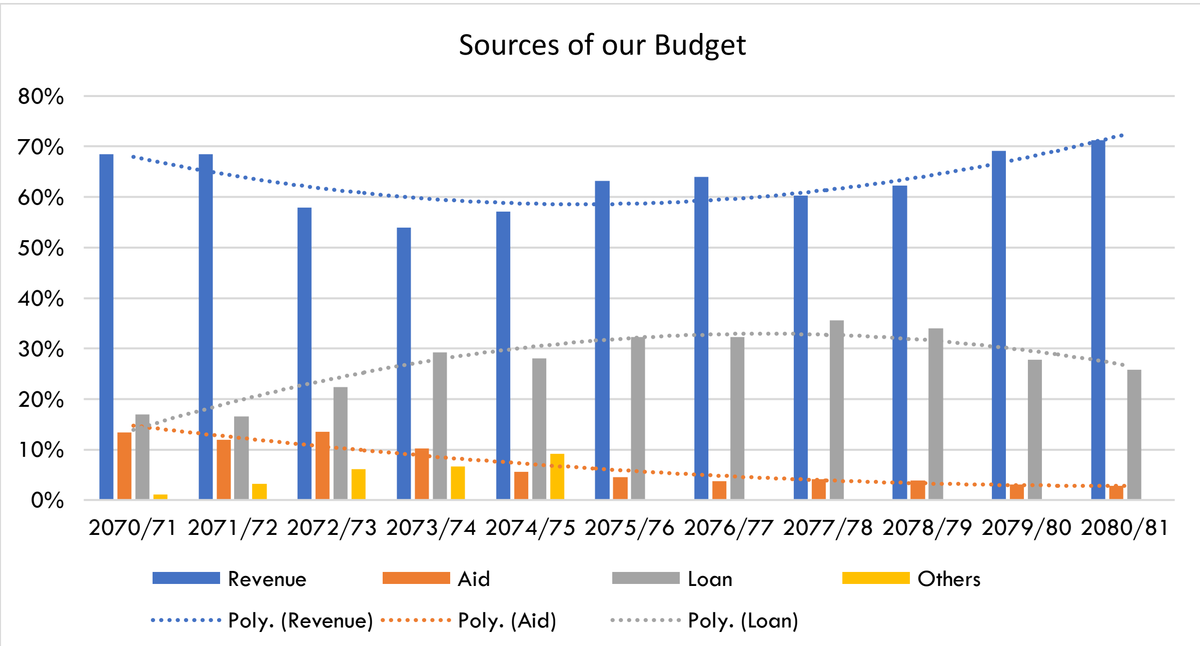


Figure 6:Expenditure of Budget into Capital and Current Sectors

developments highlighted in Figure 6. While the budget size continues to expand, the revenue contribution is not keeping pace, creating a reliance on loans to bridge the gap. Simultaneously, aid inflows are on a declining trajectory. Consequently, the increasing budget size has led to a growing debt burden, potentially impeding the government's ability to allocate resources to critical sectors. This presents fiscal challenges and limits flexibility in responding to economic shocks. Moreover, a significant portion of the budget allocated to loan repayment diverts resources from vital development priorities. This situation may affect investor and creditor confidence, impacting borrowing costs and foreign investment. The devaluation of the Nepali currency against the dollar has further exacerbated the debt liability and constrained the financial capacity. As of April, Nepal's total debt reached Rs 2.15 trillion, witnessing an increase of Rs 408.28 billion in the last 10 months alone. With the public debt-to-GDP ratio currently at 44.40% and a weakened economic growth rate attributed to low capital formation, potential risks loom over the country's economy. It is crucial to implement prudent fiscal management practices, enhance revenue mobilization efforts, and pursue diversification strategies to ensure sustainable economic growth and stability.

7. Collection of Tax Revenue

Nearly half of Nepal's overall tax revenue is derived from taxes levied on goods and services. This category encompasses taxes like value-added tax (VAT) and excise tax. Making up approximately 25 percent of the total tax revenue, the second largest contributor is taxes imposed on income, profits, and capital gains. Import tax, on the other hand, accounts for around 20 percent of the total tax revenue in the past decade. For a more comprehensive breakdown of these contributions, please refer to figure 7.

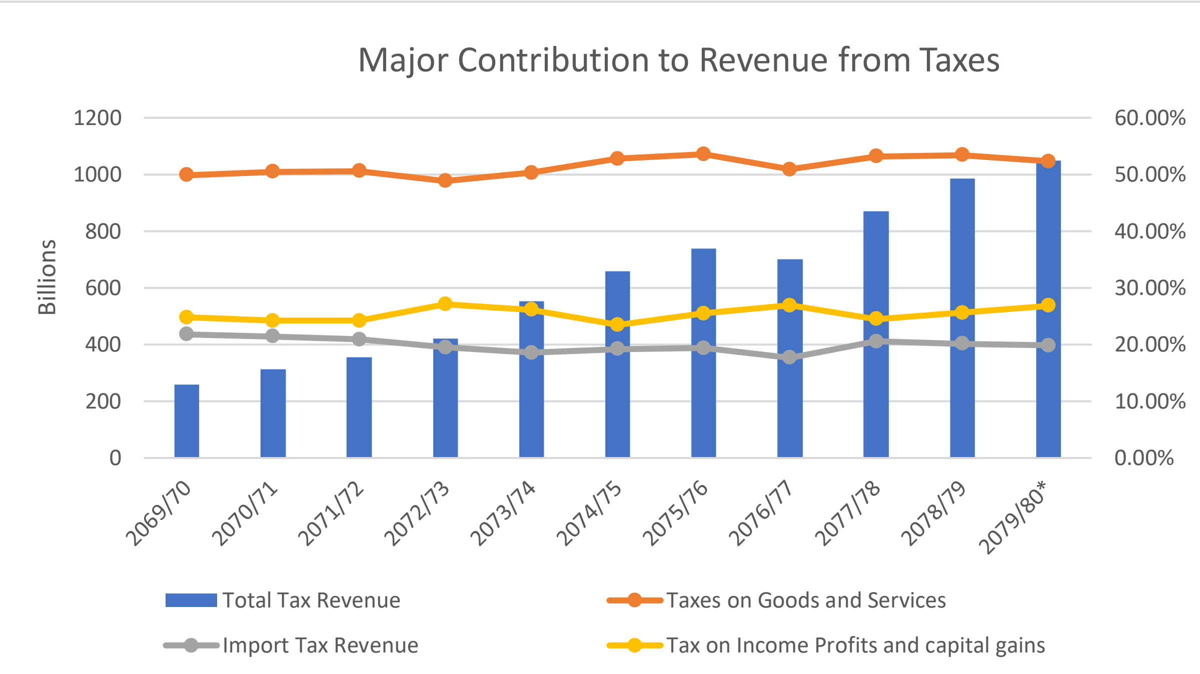


Figure 7:Major Sources of Tax Revenue

The 2069/70 budget acknowledged Nepal's increasing reliance on imports as a significant economic concern. To address this issue, favorable export regulations were introduced, along with commitments to support product development, branding, and marketing. This focus on promoting exports has been recognized as a priority and a challenge for the economy, as evidenced by subsequent financial year budgets. However, upon reviewing the latest economic budget, it becomes apparent that the effective implementation of these measures has been lacking. Consequently, Nepal continues to heavily rely on imports as a main source of revenue.

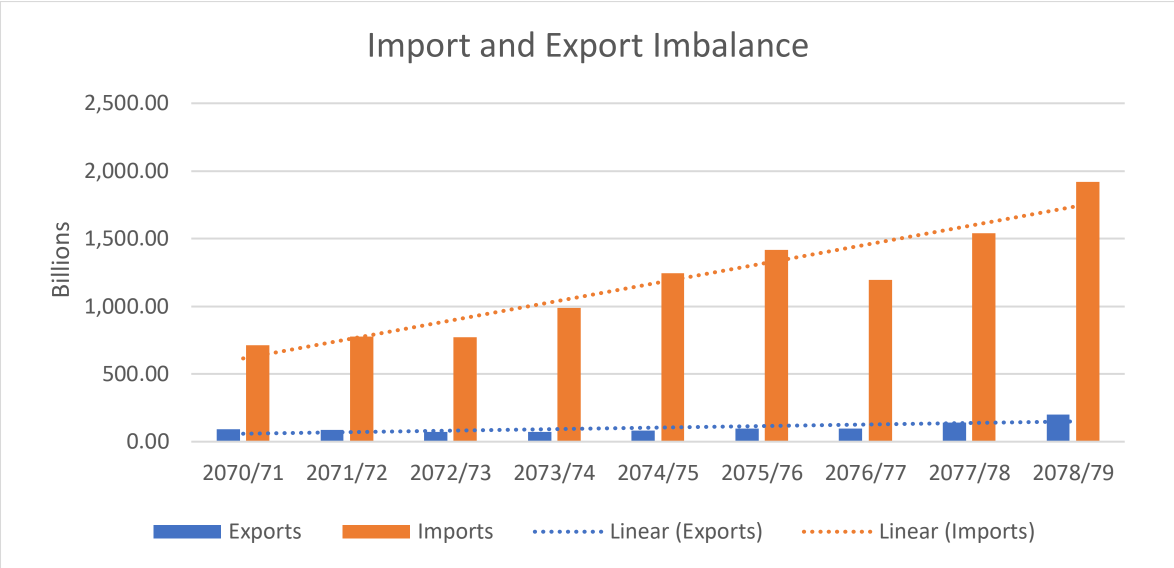


Figure 8:Export and Import Imbalance

Figure 8 reveals a consistent export trend over the years, demonstrating a relatively stable constant performance since FY 2070/71. Notably, exports have seen a moderate increase of approximately 1.5 times since FY 2070/71. In contrast, the import has undergone a significant surge, with total imports reaching nearly 10 times the exports in FY 2079/79, compared to more than7 times higher in FY 2070/71. This escalating trade imbalance presents a concerning challenge to our economy, requiring urgent action to address the issue. Failure to take prompt measures could potentially result in a detrimental economic decline.

8. Debt vs Debt Management

It seems that an average of 43% of Nepal's total debt is spent on loan repayments and about 11% goes to interest payments. As the amount of loans increases, it is clear that a large part of the loan is spent on loan payments and interest management. According to the revised estimates for the current financial year, 14% of the total loan amount will go to interest payment and 37% will go towards installment payment. In addition, it is estimated that the liability will increase further in the coming fiscal year. According to the data, it seems that more than 70 percent of the loan amount goes to the interest and installment payment of the loan. As a result, only half of the loan amount remains available for other activities such as investment, consumption and economic growth. The details of loan, installment and interest payment of the past decade is shown in the figure 9.

One notable issue arising from this situation is that the government struggles to effectively utilize the remaining funds for productive sectors. Instead, the available amount is often diverted to cover recurring expenses, which can limit the potential impact on economic development. As a result, the allocation of the loan towards debt management and the subsequent utilization of the remaining funds can significantly affect the overall efficiency and effectiveness of the economy.

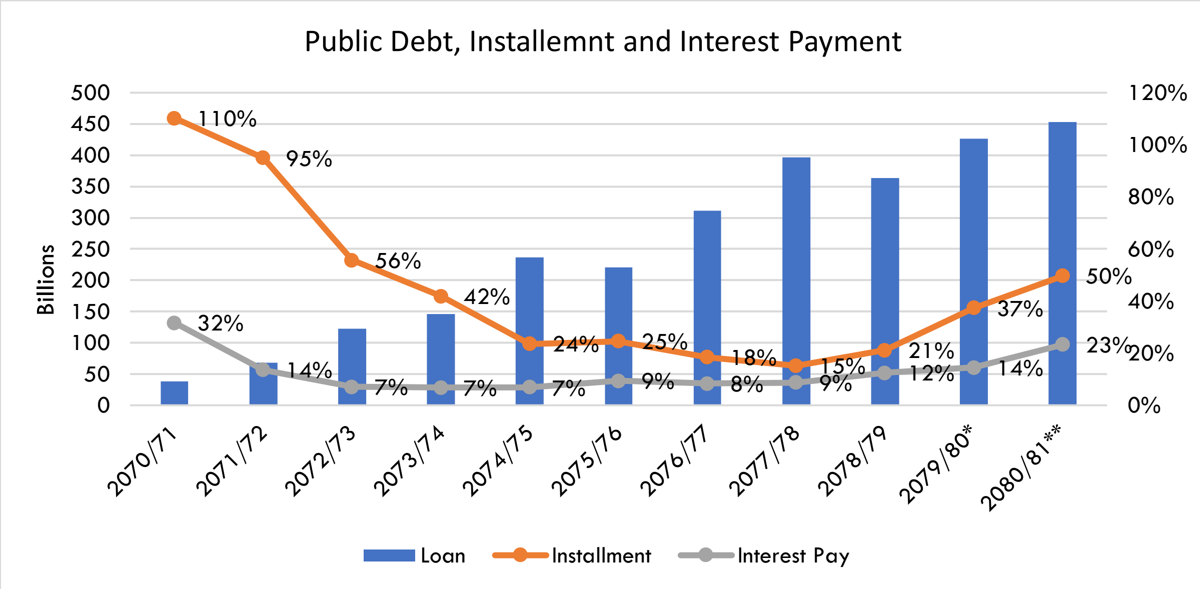


Figure 9: Public Debt, Installment and Interest Payment

Moreover, the data highlights the need for careful management of the budget size. With a considerable portion of the loan already designated for loan returns and interest payments, there is limited room to allocate funds towards priority sectors, infrastructure development, social welfare, and other productive investments. This calls for a comprehensive approach to ensure efficient budget planning and resource allocation, aiming to maximize the impact of the available funds on the economy.

8.1 Utilization of Foreign Grant

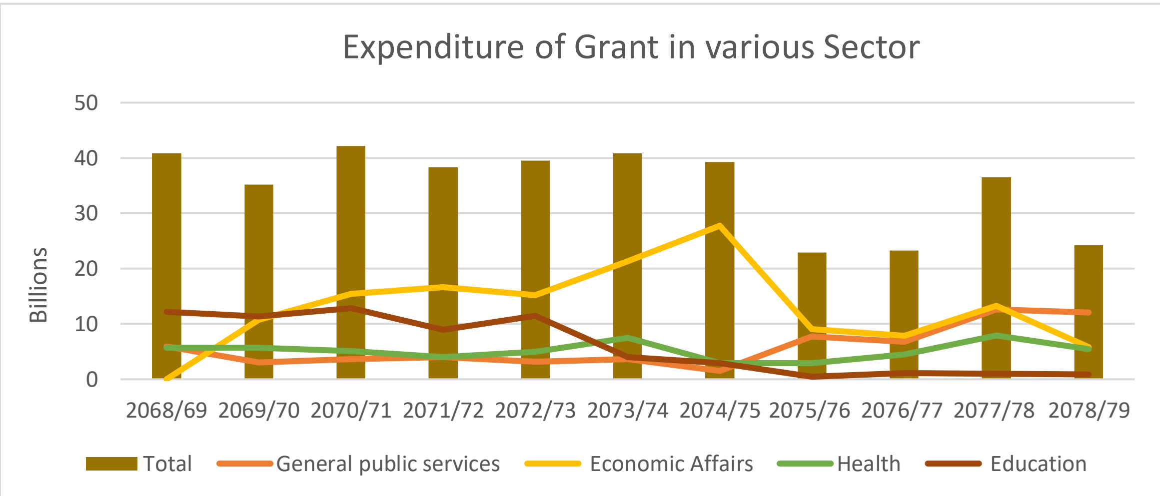


Figure 10: Utilization of Grants

Upon analyzing the utilization of grants as shown in figure 10, it becomes evident that a significant portion is allocated to economic affairs. This expenditure trend signifies a shift in the government's priorities, with reduced emphasis on sectors like health and education, and an increased focus on economic affairs. Moreover, since the fiscal year 2074/75, there has been a noticeable rise in expenditure directed towards general public service. It is worth highlighting that grants have experienced a significant decrease of nearly 50% over the past decade.

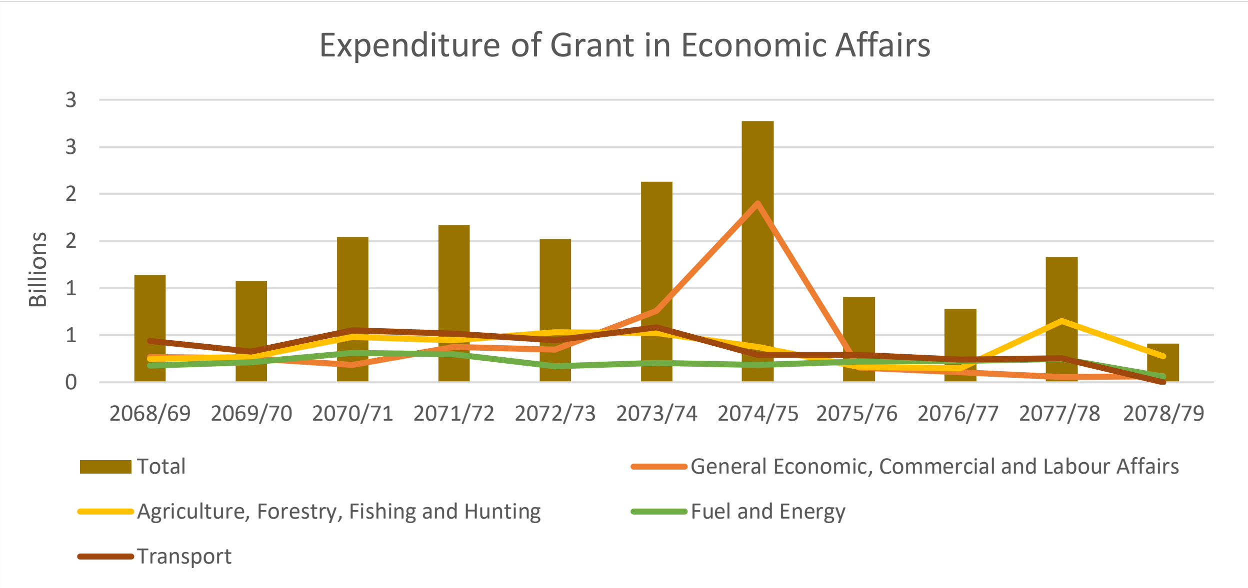


Figure 11: Expenditure of Grants in Economic Affairs.

Upon closer examination of the expenses allocated to economic affairs as shown in the figure 11, a clear pattern emerges. The data reveals that certain vital sectors, such as agriculture, have received lower priority compared to others. However, in the last two fiscal years (FY 2077/78, 2078/79) we can see that substantial amount from grant is diverted towards agriculture.

8.2 Utilization of Foreign Loan

Figure 12 highlights two noteworthy observations. Firstly, there has been a substantial increase in size of our loans over the years. Comparing the size of the loans from FY 2068/69 to the size of the loan for the FY 2079/79 we can see that there is increase in almost 12 times. Secondly, a significant portion of these loans has been redirected towards economic affairs, with a notable surge in expenditure in general public service during the FY 2076/77 Furthermore, there is a positive trend evident in the increased expenditure on healthcare since FY 2076/77.

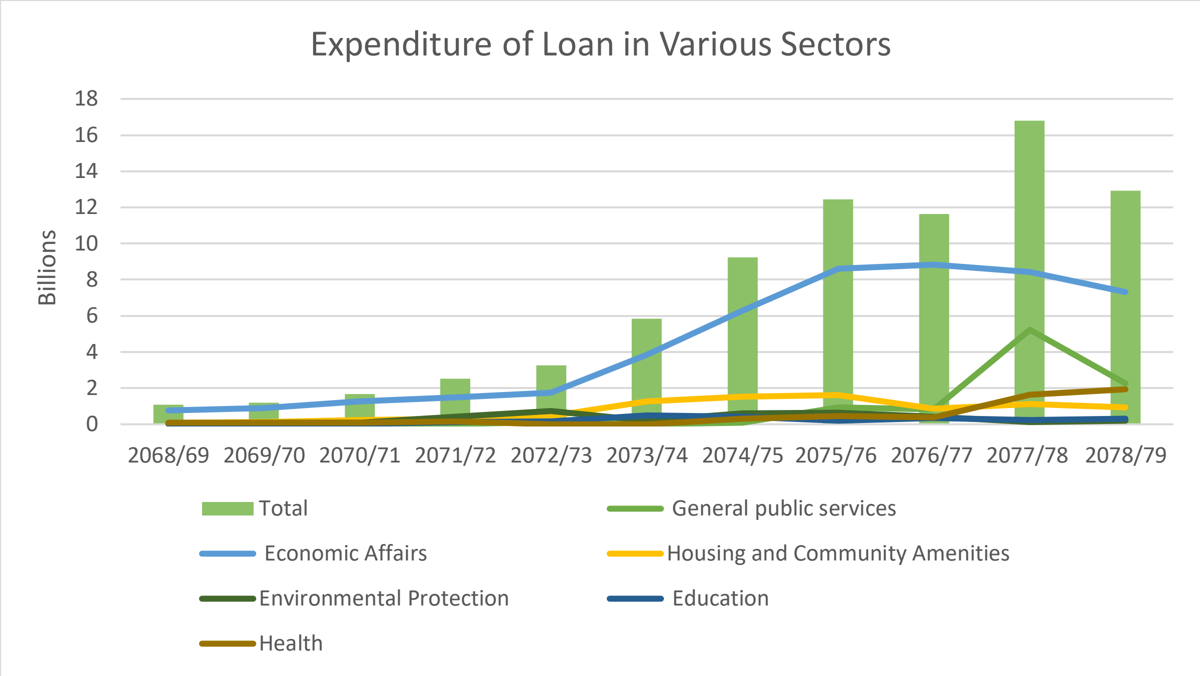


Figure 12: Expenditure of Loan in Various Sectors

The specifics of expenditure within the economic affairs sector is shown in figure 13. Notably, as the loan amounts have risen, there has been a corresponding increase in expenditure towards fuel and energy, as well as transport. However, there has been a dramatic shift in loan expenditure during FY 2078/79. It is apparent that spending on transportation, fuel and energy, as well as general economic, commercial, and labor affairs, has declined, while expenditure on mineral, manufacturing, construction, and agriculture has increased. This shift signifies a positive trend that we aspire to see sustained in future.

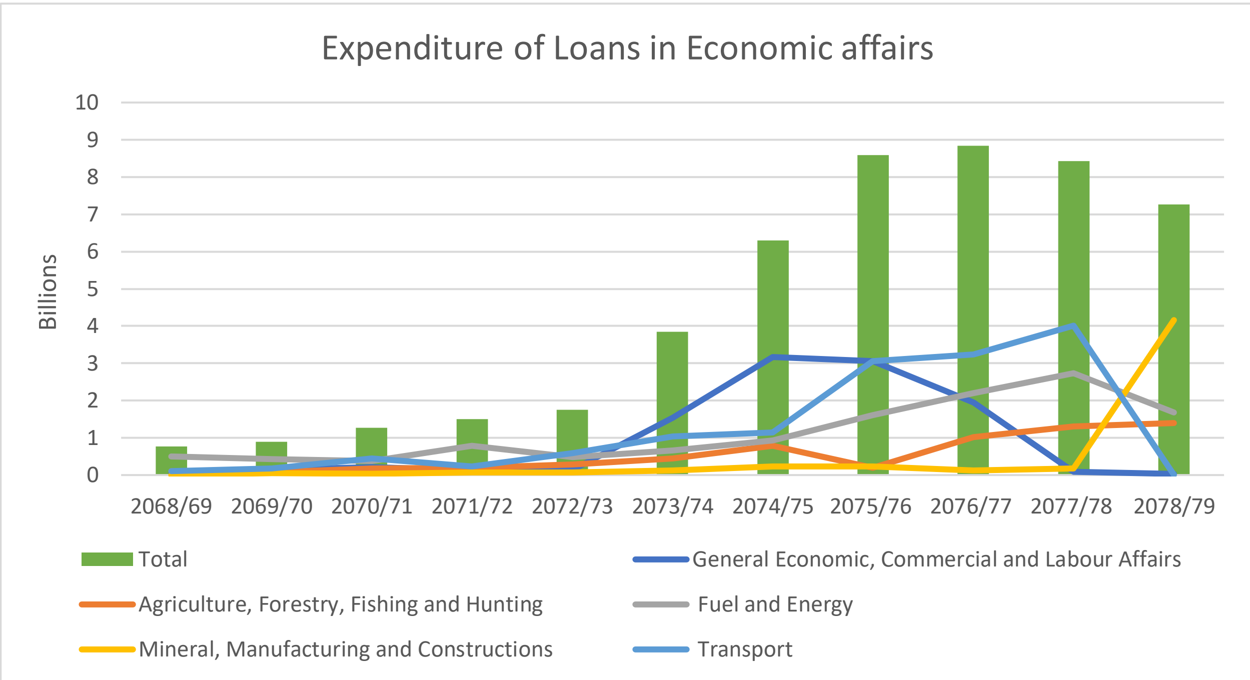


Figure 13: Expenditure of Loans in Economic Affairs

9. Economic Growth Rate and Inflation

Over the past decade, the government has made ambitious promises regarding the anticipated growth rate of the country. They committed to achieving a minimum growth rate of 5.5% and a maximum of 8.5% for the last decade. However, out of the last ten years, the government has only been able to meet its growth target on two occasions. The figures outlining the projected growth and actual growth are presented in figure 14.

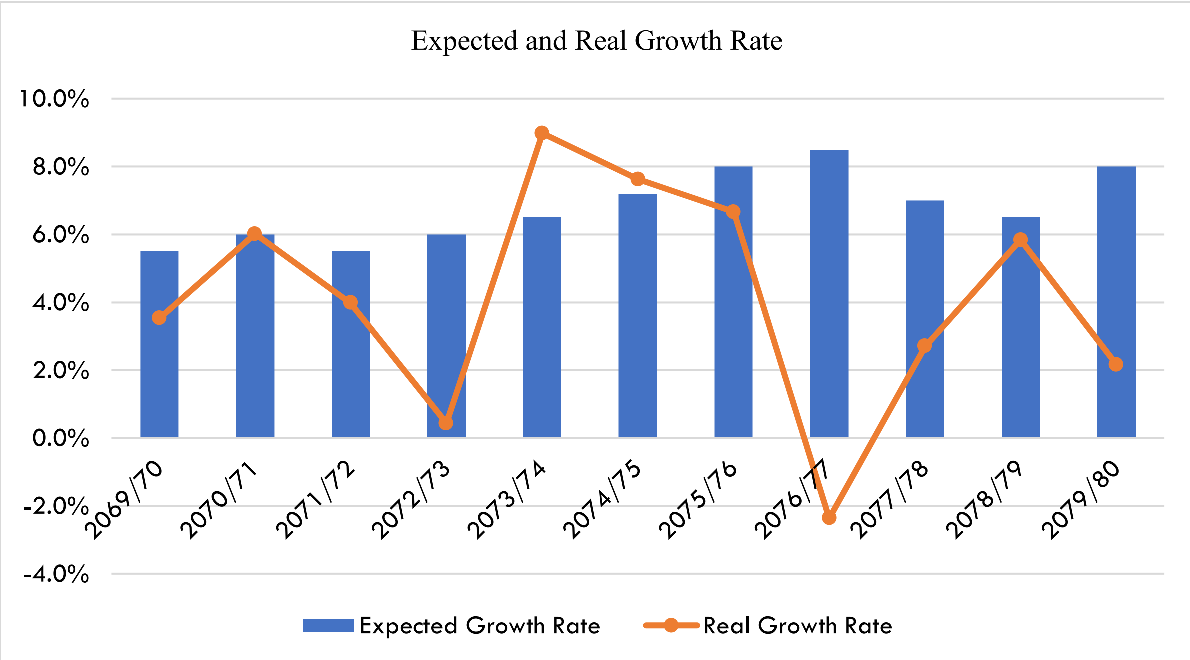


Figure 12: Expected and Real Growth Rate

During this period per capita income has risen from $781.1 in 2012 to $1037.1 in 2021 (just $256 increase). In contrast, India's per capita income has experienced a more substantial growth, soaring from $ 1037.1 to $1936.9($899.8 increase).

Over the past decade, country has experienced significant fluctuations in inflation, which have had a profound impact on overall economic growth. The inflation rate directly affects bank lending rates, thereby influencing investment in key productive sectors. By examining the data, it becomes evident that the highest growth rates were achieved during the FY2073/74 and 2074/75, coinciding with the low inflation rates recorded in the past decade. This notable growth might be because it was the aftermath of the major earthquake, leading to substantial reconstruction and increased capital expenditure. However, the growth rate plummeted to -2.1% in the FY2076/77 due to the severe impacts of the COVID-19 lockdown measures. Expected growth for current fiscal year was 8% although it failed to reach its goal and actual growth is limited to about 2.16%. The details about the inflation and growth rate are shown in figure 15.

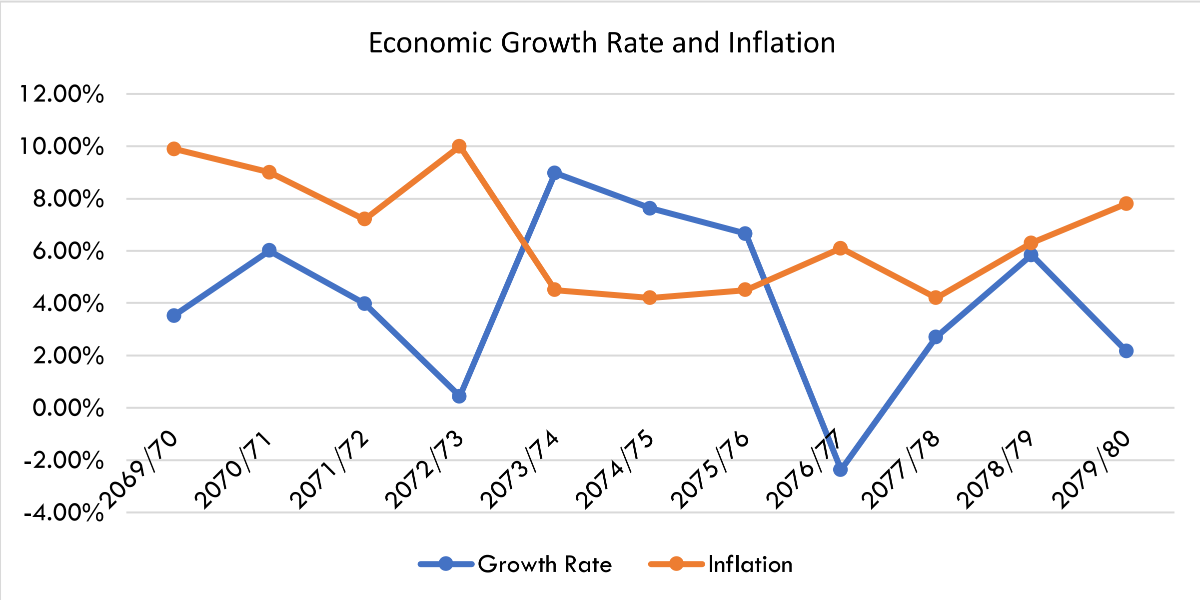


Figure 13:Economic Growth Rate and Inflation

10. Sectoral division of Budget and its Comparison with another Sector.

10.1 General Public Service

The budget allocation for general public services has experienced a substantial increase over the period from FY 2069/70 to 2079/80, growing by approximately eightfold during this timeframe. The estimated expenses for this sector have now reached nearly one-third of the

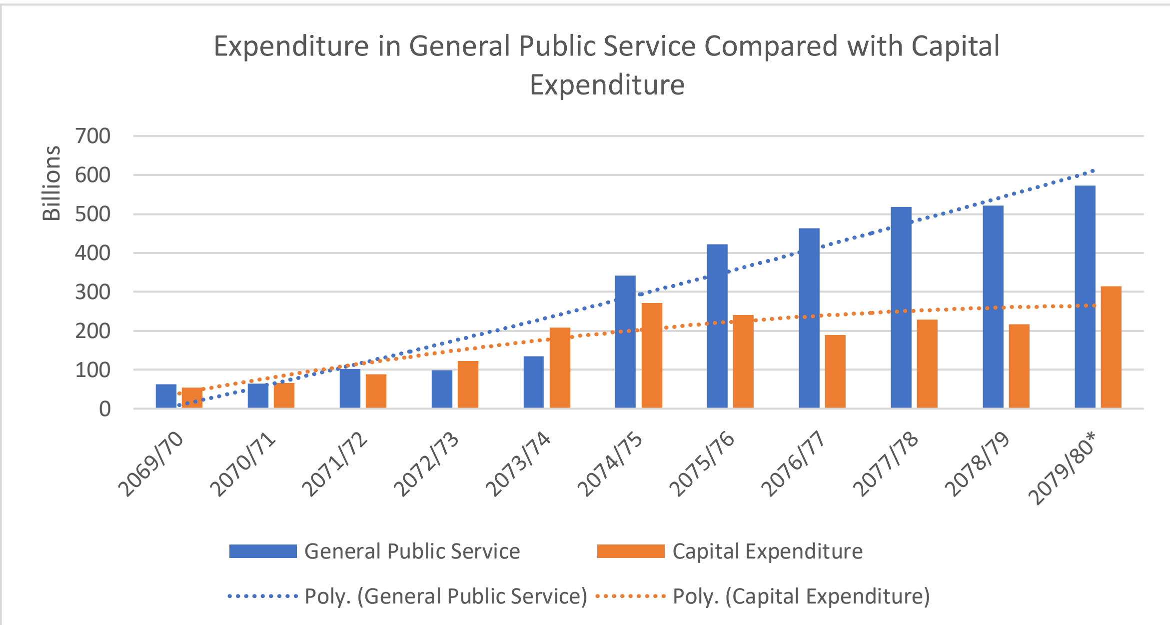


Figure 14: Expenditure in General Public Vs. Capital Expenditure

budget from the previous fiscal year. Particularly concerning is the significant rise in current administrative costs, necessitating serious actions from the government to reduce these expenses. These figures highlight a worrisome trend of escalating costs, raising concerns about potential reckless spending. It is imperative to implement appropriate measures in the future to address and effectively manage this issue. In figure 16, a comparison has been presented between the total expenditure on general public services and the capital expenditure of the country.

10.2 Salaries and benefits and its share in Current Expenditure

The percentage expense of salaries and other benefits in Nepal's current expenditure fluctuated over the years as shown in the fig.17. It decreased from around 28% to 13% but then increased to approximately 16% in the current fiscal year. The decrease in the percentage of salary and other benefits is a positive sign, but despite the decrease in the percentage of salary allowance, the increase in other expenses within the current expenditure shows that the amount has been circulated within the current expenditure and resources have not been allocated to other important areas such as infrastructure development, education or health.

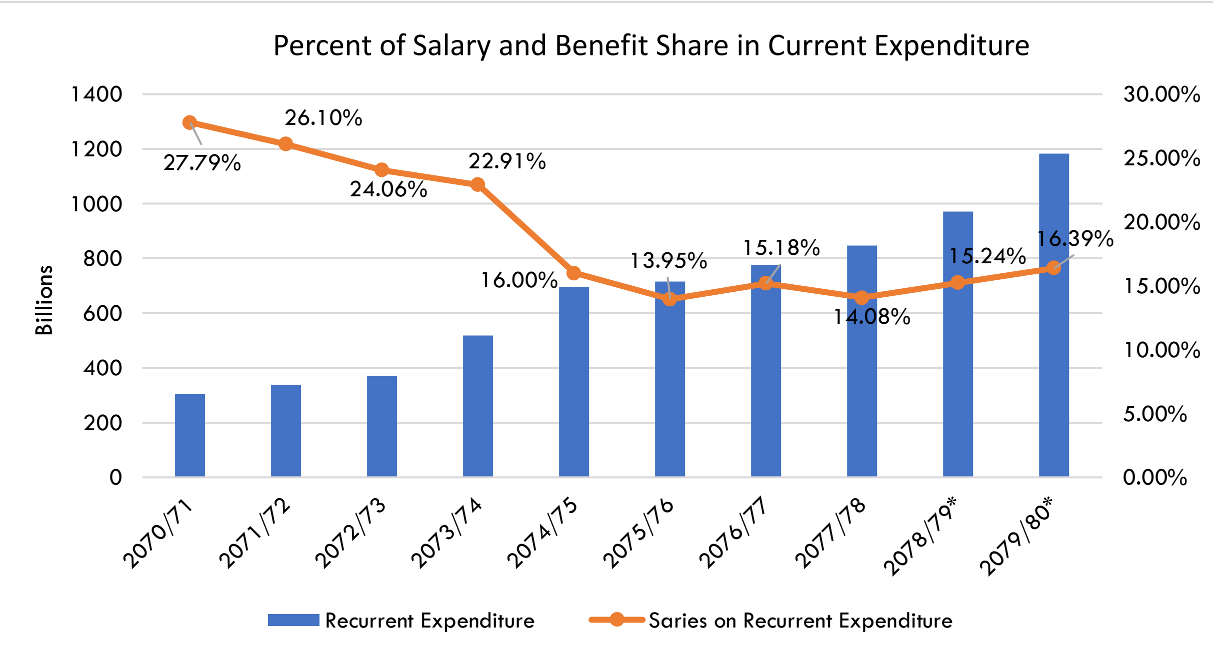


Figure 15: Percent of Salary and Benefit Share in Current Expenditure

10.3 Agriculture

The latest census data reveals that out of the economically active population, which includes individuals aged 10 and above, a staggering 85,86,562 people, or 57.3% of the total, were engaged in agricultural activities. This significant figure highlights the fact that a majority of the population relies on agriculture as their primary source of income. It is no wonder, then, that agriculture has consistently received considerable attention in every budget since

FY2069/70. To provide further insights into expenditure in the agricultural sector over the past decade is reviewed.

Figure 18 displays the total expenditure made by the government during this period. Notably, there have been only two instances where the capital expenditure surpassed the current expenditure: FY2073/74 and 2074/75, as depicted in the figure above. However, the capital expenditure has only been more than the current expenditure in FY2073/74 and 2074/75 as shown in the figure below.

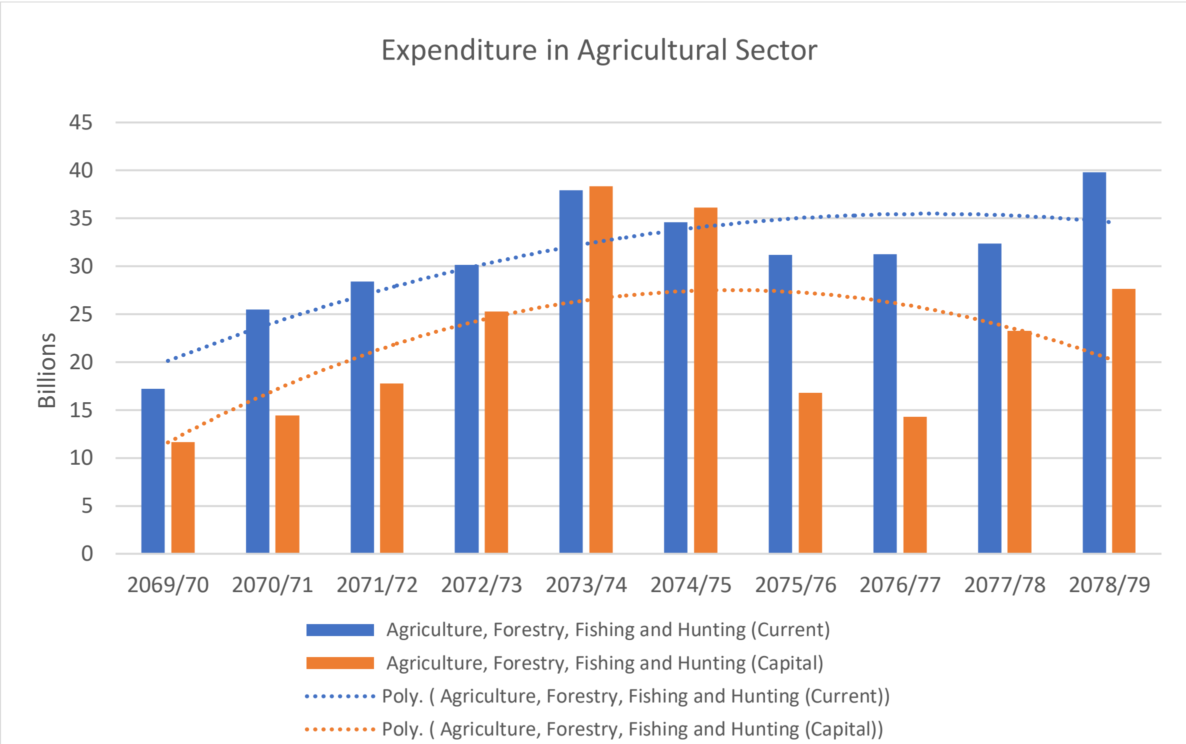


Figure 16: Total Expenditure in Agricultural Sector

Over the course of the past decade, the government has implemented numerous programs aimed at enhancing the agricultural sector. These initiatives encompass a wide range of measures, including the provision of chemical fertilizers, subsidies on seeds, grants for interest, and favorable loan interest rates.

The primary objective behind many of these programs has been to modernize and transform agricultural practices, ultimately boosting productivity. In order to facilitate this transformation, the government has offered substantial support, such as up to a 50% capital subsidy on agricultural equipment and a mere 1% customs duty on machinery imports. Additionally, even made plan to introduce a mobile application tailored specifically for farmers, facilitating the efficient flow of information crucial to their operations.

Visualizing the data in the figure below, we can observe a consistent increase in the government's supply of fertilizers and seeds throughout the last decade. This trend highlights the government's commitment to supporting and bolstering the agricultural sector, thereby reinforcing its efforts to promote productivity and modernization.

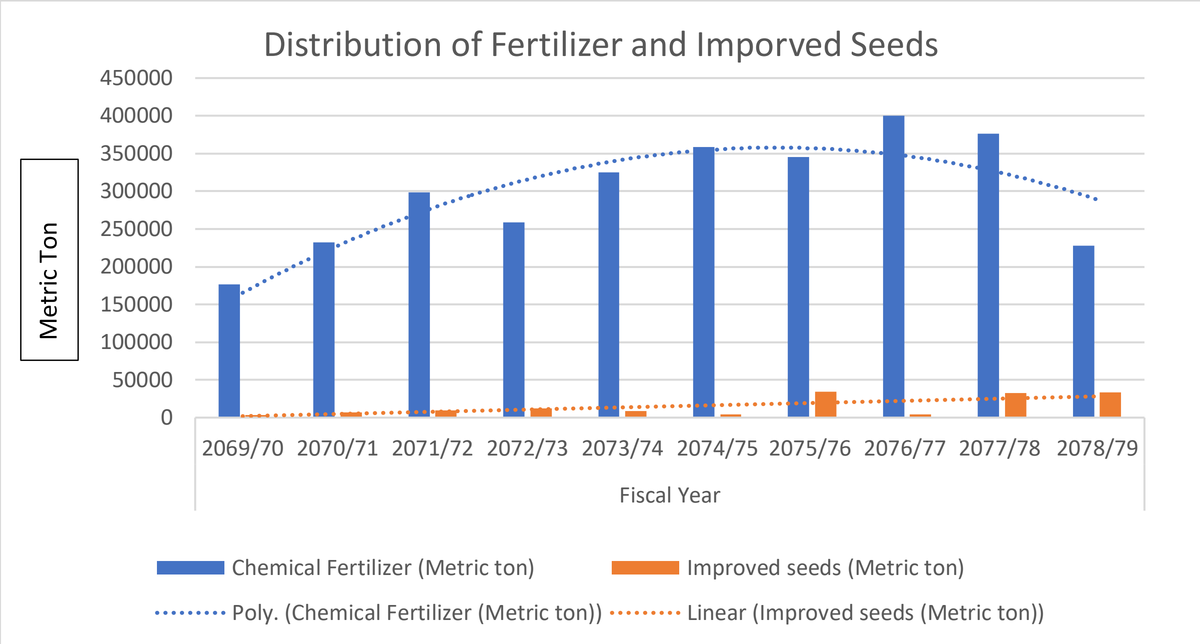


Figure 17:Distribution of Fertilizer and Improved Seeds

The data from figure 19 indicates a significant increase in the government's distribution of fertilizer and seeds. In comparison to FY 2069/70, the distribution of seeds has witnessed a ninefold increase by FY 2078/79. Furthermore, the distribution of fertilizers has risen from 176,963 metric tons in FY 2069/70 to 227,872 metric tons in FY 2078/79. The peak distribution of fertilizers occurred in FY 2076/77, reaching 400,541 metric tons.

The government has made significant investments in the development of the irrigation sector. As depicted in the accompanying figure, there has been a substantial expansion in the total extended irrigated area over the past decade. It has grown from over 12 lakh hectares to surpassing 15 lakh hectares as shown in the figure 20.

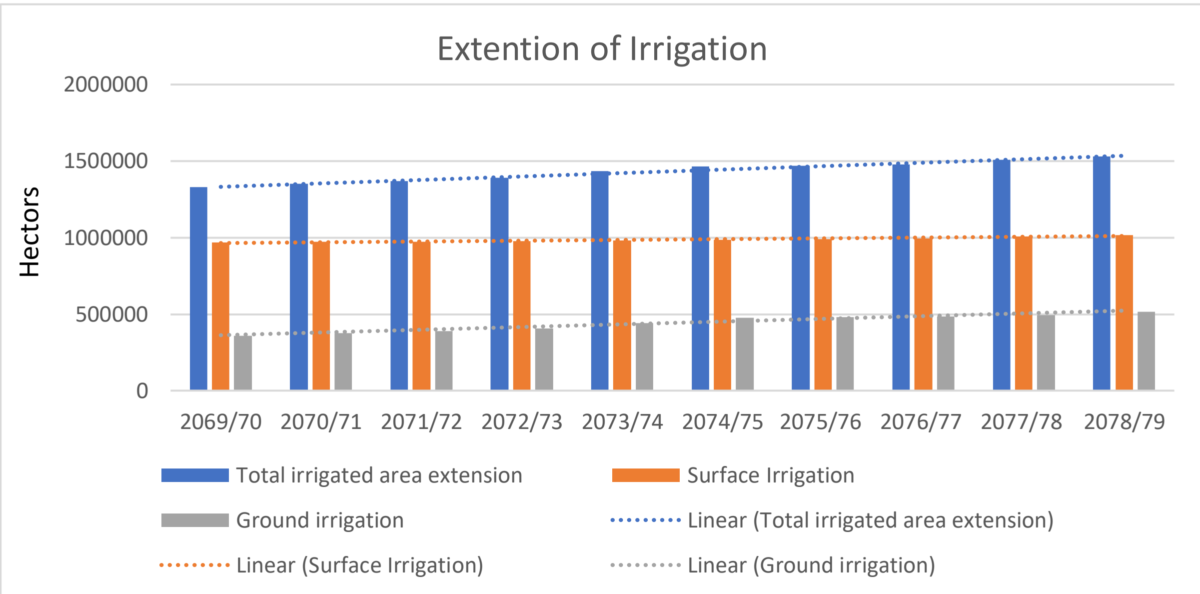


Figure 18: Extension of Irrigation

Despite the government's consistent efforts and allocation of resources towards the agricultural sector over the past decade, there has been limited progress in terms of yield rate and productivity. An examination of the data as shown in figure 21 reveals that while the yield rate of paddy crops increased from 3.17 to 3.47 metric tons per hectare between FY2069/70 to FY2078/79, and wheat yield rate increased from 2.47 to 2.99 metric tons per hectare during this period, improvements in productivity remain elusive and subtle.

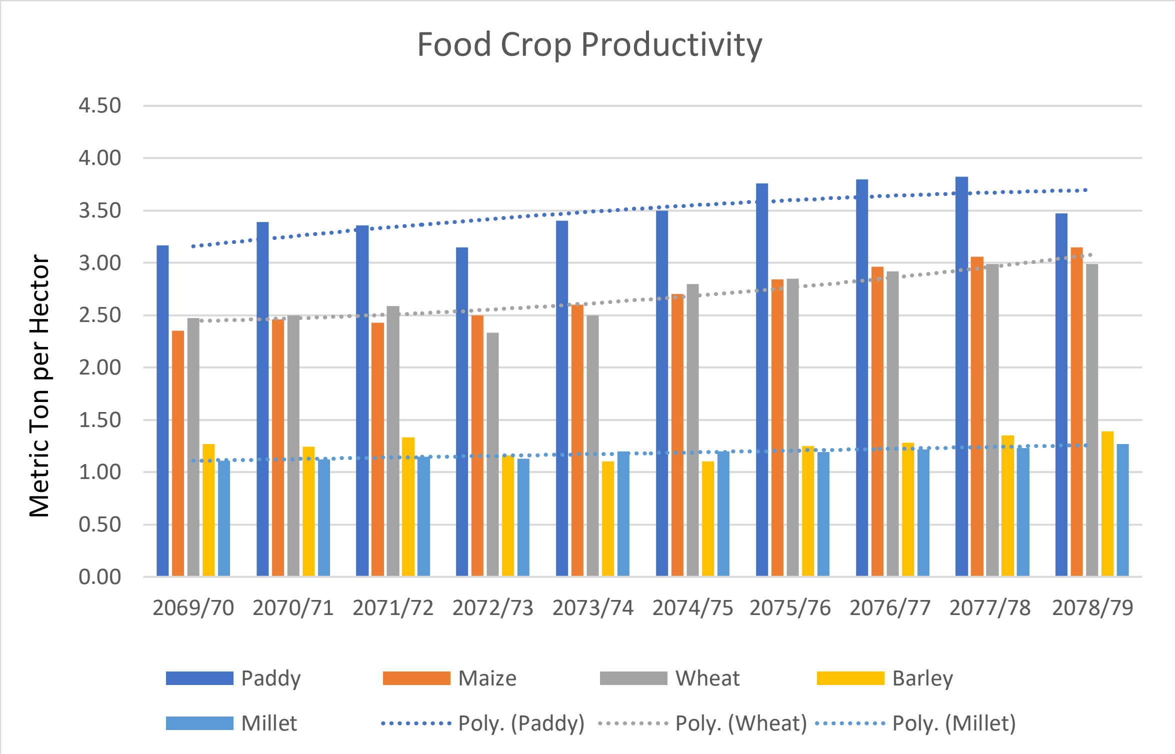


Figure 19: Food Crop Productivity

It is evident that despite the government's emphasis on this sector and substantial investments, the expected advancements in productivity have not materialized. This raises concerns about the effectiveness of the measures implemented and the need to explore additional strategies to enhance agricultural productivity.

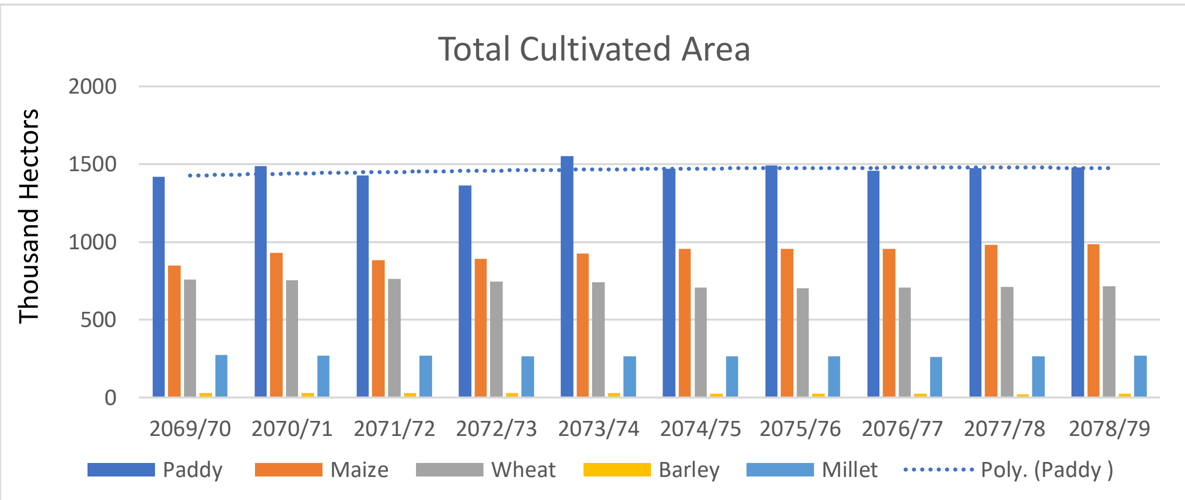


Figure 20: Total Cultivated Area of Paddy Crops

In light of the government's increased subsidy and concerted efforts, it is indeed surprising that the total area of cultivated land has remained unchanged, as illustrated in the figure 22.

This observation raises questions about the impact of the subsidy programs and the effectiveness of the government's efforts to incentivize and expand cultivation. Despite the significant support provided, the lack of growth in the total cultivated land area suggests the presence of underlying factors that hinder the desired expansion.

Consequently, our dependency on imported agricultural products remains high, as evidenced by the figure 23.

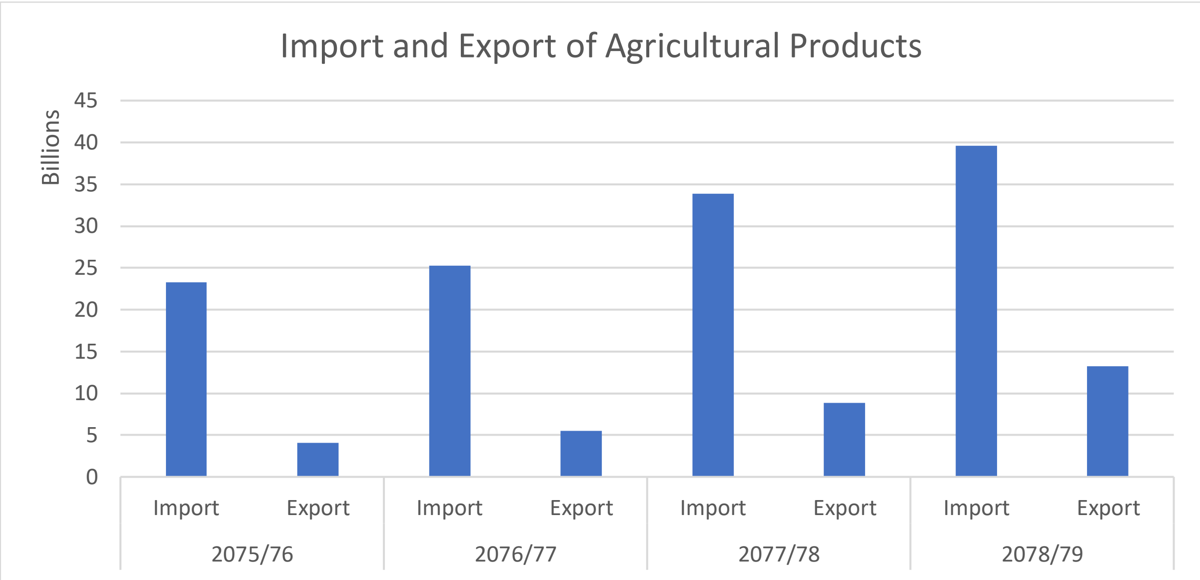


Figure 21: Export and Import of Agricultural Products

This illustrates an increasing trend in imports. Imports of agricultural products is over 4 times higher than our export on average since FY2075/76 to FY2078/79. Despite efforts to strengthen domestic agricultural production, the data reveals that a significant portion of our agricultural needs continues to be met through imports. This trend emphasizes the need to focus on enhancing domestic production capabilities and reducing reliance on external sources.

10.3.1 Probable Reasons for Low Productivity

The low level of productivity in the agricultural sector can be attributed to various factors, and one significant aspect can be the absence of registered agricultural industries or organized farming throughout all provinces. These industries include industries like farms, dairies, hatcheries, warehouse etc. which play a vital role in boosting agricultural production. Examining the table below reveals a striking disparity in the distribution, with a predominant concentration of industries in the Bagmati province. This uneven distribution suggests potential deficiencies in industrialization and resource management across these provinces. The uneven distribution observed in the table 1 may indicate a deficiency in the establishment of essential industries required for agricultural development.

Table 1: Province wise Registered Industry (Source: Department of Industry,2022)

Category/Province	Koshi	Madesh	Bagmati	Gandaki	Lumbini	Karnali	Sudur Paschim
Agriculture and Forestry	126	25	290	45	18	1	5

The lack of a proper industry infrastructure in certain regions poses challenges for agricultural growth and productivity. Without adequate storage facilities and access to modern machineries, farmers in these areas may face difficulties in optimizing their agricultural practices, impacting overall development in the sector.

The lack of growth in the agricultural sector may be attributed to various factors, including the absence of a domestic chemical fertilizer manufacturing industry in Nepal. This particular deficiency can significantly impact productivity, as farmers often face challenges due to delays in government provision of fertilizers during the crucial cultivation seasons.

The absence of a local fertilizer manufacturing industry not only increases dependence on imports but also introduces logistical issues that can hinder timely and consistent access to fertilizers for farmers. This, in turn, negatively affects productivity levels and adds to the challenges faced by the agricultural sector

10.3.2 Way Forward

In the fiscal year FY2073/74, the government proposed significant land reforms as part of its budgetary plans. These reforms aimed to establish a land categorization system with clear classifications, ensuring that land designated for one purpose would be strictly prohibited from being used for another. Additionally, the budget emphasized the crucial directive that no agricultural land should be left uncultivated.

However, despite these ambitious plans, none of the proposed land reforms have been implemented thus so far. Consequently, our country continues to lack proper land reforms, which are essential for supporting our farmers and transitioning towards large-scale farming.

If we aspire to enhance productivity and efficiency in our agricultural sector, it is imperative to introduce comprehensive land reforms. These reforms would provide the necessary framework to empower farmers, optimize land utilization, and foster the transition to more sustainable and productive farming practices.

Another significant factor contributing to the lack of productivity can be attributed to the insufficient focus on research and development (R&D). According to the economic survey, the total expenditure on R&D within the scope of economic affairs, encompassing sectors such as agriculture, forestry, fishing, transport, communications, labor affairs, fuel, and energy, has been relatively low over the past decade. The expenditure is shown in table 2:

Table 2: Amount spent in R&D in Economic Affairs. (Amount in Crore)

FY	2069/70	2070/71	2071/72	2072/73	2073/74	2074/75	2075/76	2076/77	2077/78	2078/79
R&D-Economic Affair	36	62	146	2339	73	38	19	59	40	78

Analyzing the table above, it becomes evident that apart from the fiscal year 2071/72, the expenditure on R&D has been consistently low, with less than Rs. 80 crore spent in eight out of ten years. Such minimal investment in R&D fails to align with the nation's needs, particularly considering the consistent emphasis on agriculture by the government over the past decade.

If our objective is to modernize agriculture and enhance productivity, it becomes imperative to prioritize and substantially invest in R&D. The importance of allocating significant resources to research and development cannot be overstated as it is a crucial enabler for innovation, technology adoption, and sustainable agricultural practices.

10.4 Education

The constitution of Nepal ensures that education is a fundamental right for all its citizens. However, despite this guarantee, the investment and outcomes in the education sector have been highly unsatisfactory. In the period from FY2069/70 to 2073/74, there was a gradual decrease in the allocation of funds for education, dropping from 17% to 12% as indicated in figure 24. Subsequently, the country transitioned to a federal system, leading to changes in the budget allocation system. Unfortunately, the allocation of funds in the education sector has remained low, with the government dedicating minimal resources to crucial areas like educational development programs, which are vital for cultivating skilled manpower for the future.

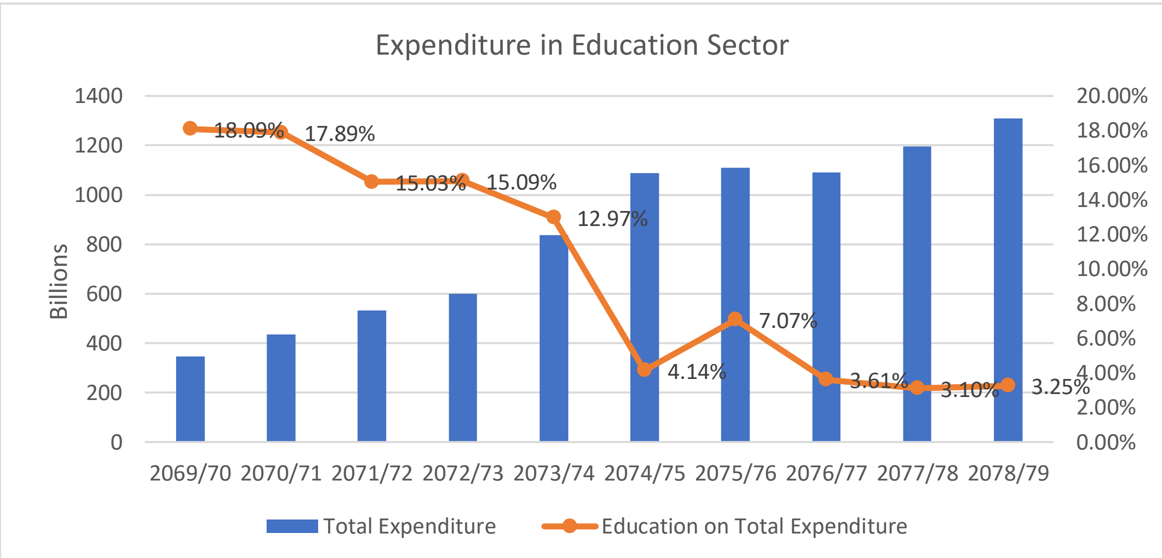


Figure 22:Expenditure in Educational Sector

One of the most significant disparities in investment can be observed within the national budget. Despite the government's claim of prioritizing education in FY2076/77, the actual allocation of resources tells a different story. Shockingly, only Rs. 15 crore was earmarked for capital investment, while a staggering amount of thirty-nine arba and twenty-six crore was allocated to current investment. This glaring disparity in funding signals a lack of emphasis on fostering innovation and improvement within the education sector, as evidenced by the minimal investment in educational research and development over the past nine years.

10.4.1 Output

It is indeed encouraging to see the increasing investment in the education sector, particularly in early childhood education. The data indicates a significant growth in the number of child development centers and beneficiary children over the years.

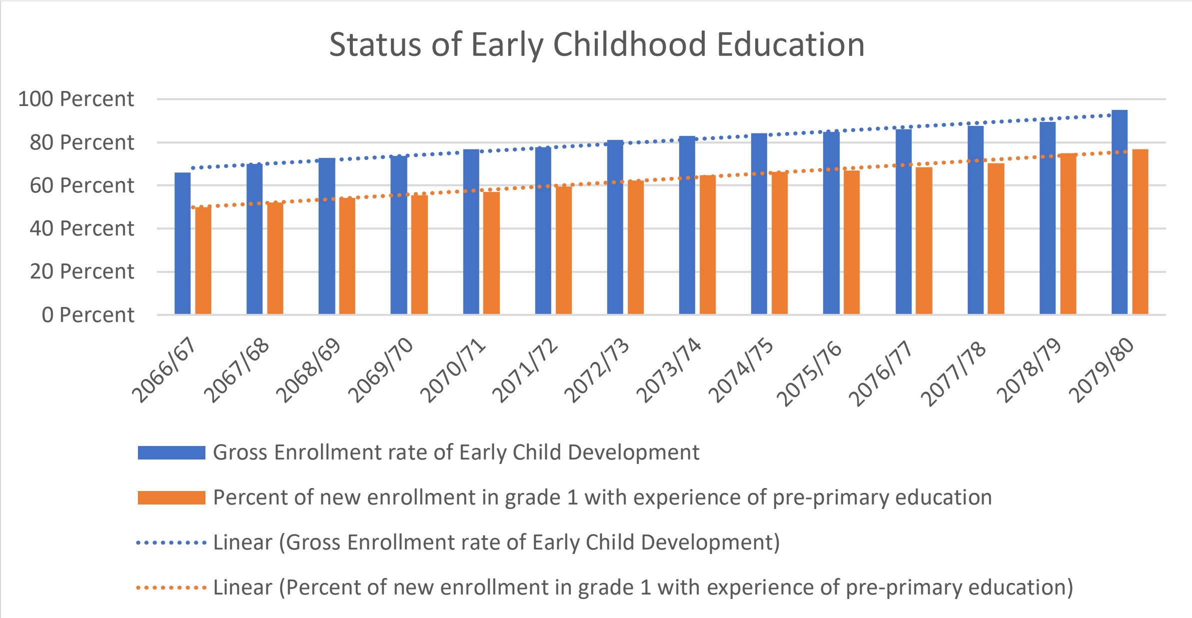


Figure 23: Status of Early Childhood Education of Nepal

The figure 25 illustrates a notable upward trend in the percentage of enrollment of early childhood development and enrollment numbers in grade 1 among students who have received pre-primary education. Over the period from FY 2066/67 to FY 2079/80, there has been a significant increase in early childhood development, with the percentage rising from 66.02% to 94.9%.

The available data on vocational education appears to be incomplete, making it challenging to provide a comprehensive analysis. However, based on the information provided, there seems to be a fluctuating trend in total enrollment and production at the technical SLC (School Leaving Certificate) and Diploma levels over the past decade. More recently, there has been a noticeable slowdown in the growth of both enrollment and production.

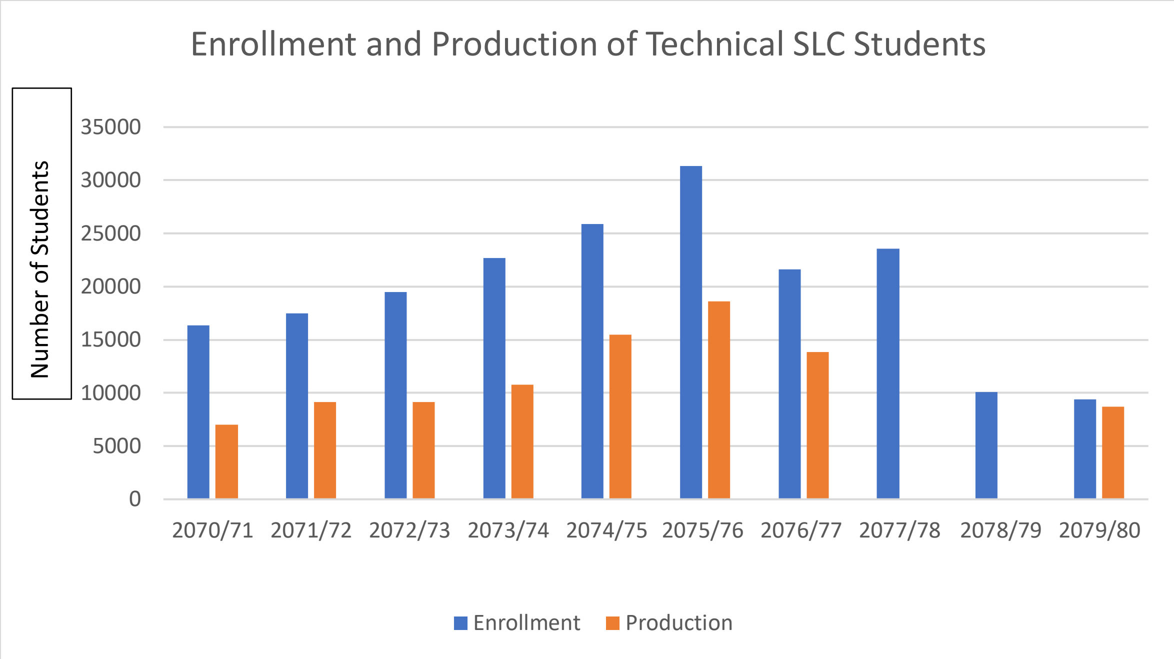


Figure 24:Enrollment and Production of Technical SLC Students

Figure 26 provides a visual representation of the enrollment of technical SLC (School Leaving Certificate) students over the past decade. Regrettably, data of the total production for FY 2077/78 and FY 2078/79 is unavailable. Nevertheless, based on the information at hand, it is apparent that while there has been a steady rise in enrollment and student production in vocational education, these numbers have experienced a decline in recent years.

The pass percentages for students in grades 11 and 12 have undergone significant changes over the years. In 2066 (2009), the pass percentage stood at 40%, but by 2073 (2016), it had risen to 51.1%. However, the increase in the pass percentage for grade 12 was marginal, going from 47.705% in 2009 to 49.38% in 2017. Following the transition to a letter grading system, the availability of data on pass percentages seems to be unavailable, making it difficult to track further changes.

The enrollment and student production in universities across the country is shown in the figure 27. On average, the overall production rate among all universities hovers around 14%. Notably, Nepal Sanskrit University takes the lead with the highest pass percentage of 42.32%, closely followed by Kathmandu University at 20.45%. In terms of enrollment, Tribhuvan University emerges as the frontrunner with a staggering 537,869 students currently enrolled.

Looking at the figure 27, we observe that out of the total enrollment of 681,240 students, the production rate is 12.32%, equivalent to 83,916 students.

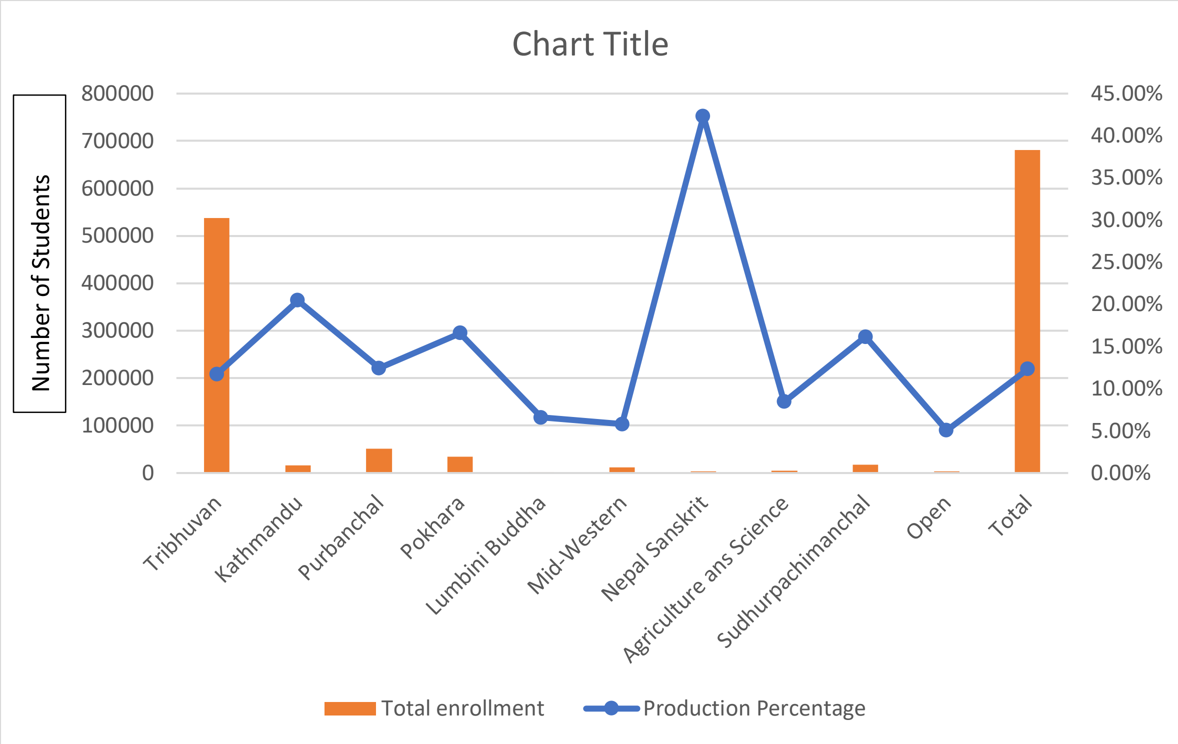


Figure 25: Enrollment and Production of Students from various Universities

10.5 Health

Access to health care is a fundamental right of Nepalese citizens, and it is recommended to allocate a minimum of 10% of the budget to this important area. However, the government has consistently failed to meet this allocation requirement. The highest allocation in recent years was during the financial years 2077/78 and 2078/79 during the Covid-19 pandemic. Even in these challenging times, the allocation for health services was only 7.8 % and 8.59 % respectively. But despite the allocation, only 4 -6 %has been spent, as shown in the figure 28.

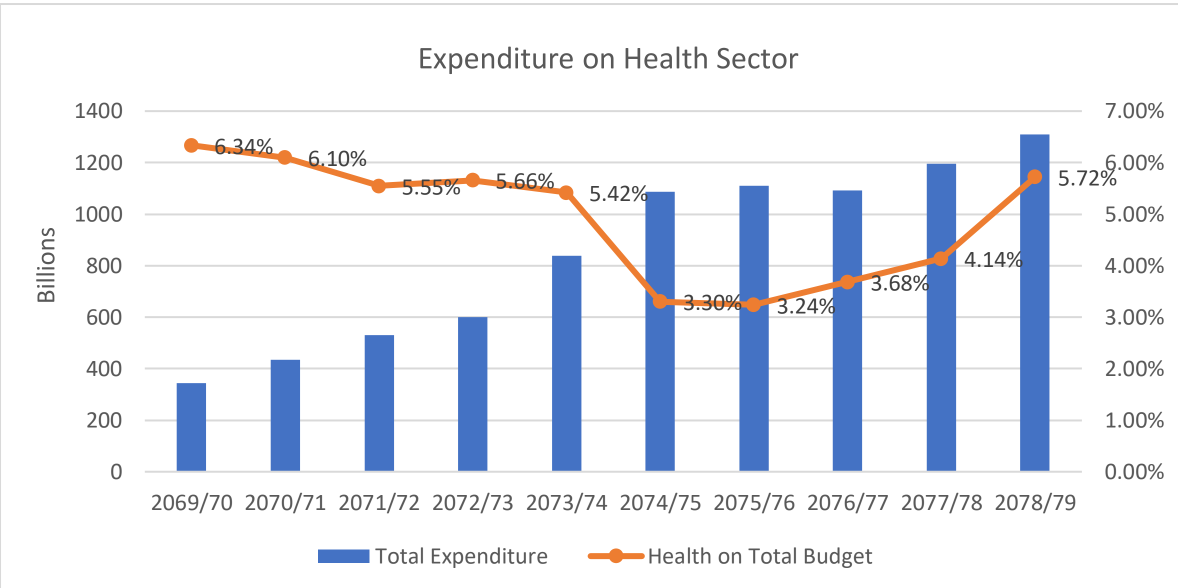


Figure 26:Expenditure on Health Sector

Some improvements in health sector since 2015 are as shown in the table 3:

Table 3: Major Health Sector Indicators (Source: Ministry of Health and Population,2022)

Millennium Development Indicators	**Unit**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Maternal Mortality Rate	Per Hundred Thousand	190	239	239	239	239	239	239
Total Fertility Rate per women	Person	2.3	2.3	2.3	2	2	2	2
Child Mortality rate under five Years Per thousand	Person	38	39	30	39	28	28	28
Infant Mortality Rate per thousand	Person	33	32	32	32	25	25	25
Ratio of one year old children immunized against Measles	Percent	85	77	84	81	83.6	79.6	82.3
New Tb cases cured	Percent	92	90	90	91	84	90	91
Malaria Infected Annual numbers	Person	1352	991	1134	1187	1065	619	373
Ratio of birth assisted by the skilled birth attenant	Percent	51	54	56	52	60	62	61

The data strongly suggests the need for a substantial increase in healthcare allocation, given that the total number of registered medical specialists stood at a mere 1008 as of March 2022(2079). It is imperative for the government to allocate sufficient funds in the budget to uphold the rights of citizens. Adequate funding plays a critical role in delivering high-quality healthcare services and meeting the ever-growing healthcare demands of the population.

10.6 Social Security

The total expenditure for social security has increased by more than 14 times from FY2069/70 till FY2078/79 as shown in the fig. 29. Even with this increase in expenditure in this sector there remains a large portion of people who are unable to gain any benefits from this expenditure. Presently, many tax-paying citizens do not receive any benefits from existing social security programs. If such programs are introduced such as unemployment benefits for citizens that have paid taxes for number of years, then many individuals may be incentivized to contribute towards taxes. Last year the government’s decision to lower the age limit for granting benefits to senior citizens may raise the cost in this sector.

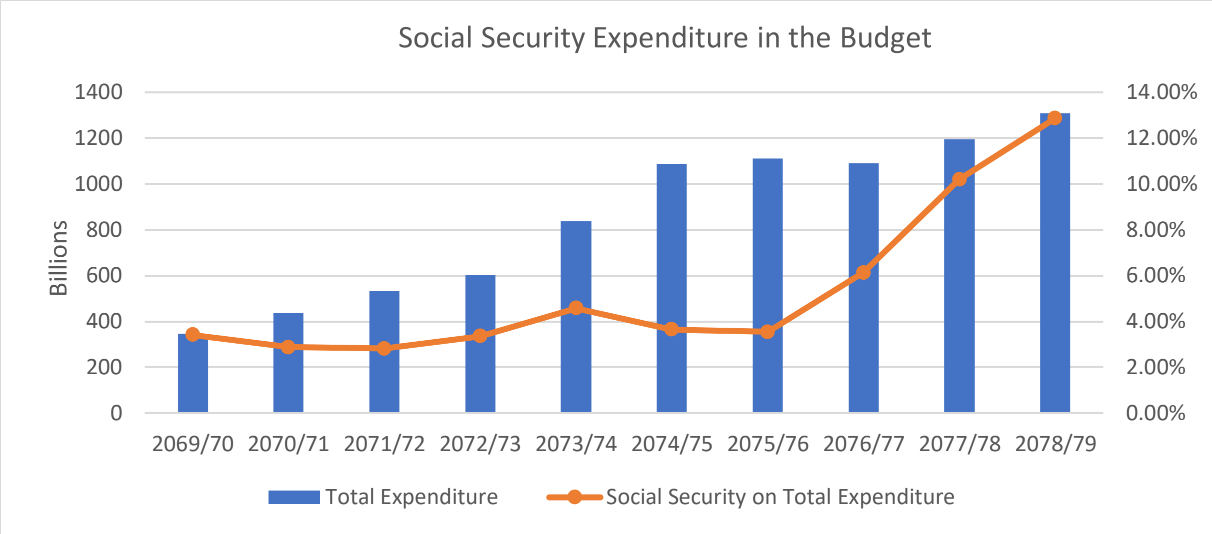


Figure 27:Social Security Expenditure in the Budget

The figure above gives a clear picture that the expenditure has been increasing in this sector. From the total expenditure has increased from about 6% of the total budget to above 12% in FY 2076/77.

Introducing legislation that classifies elderly citizens based on their level of need may help reduce costs in this area and allow resources to be allocated to those who require them the most. The coverage of social security scheme should be enhanced and proper beneficiaries need to be identified to make the program sustainable.

10.7 Environmental Protection

Nepal's budgetary allocation towards environmental protection has been inadequate. The maximum expenditure during these last ten years was slightly above 0.9% in FY2075/76. In the last decade on average only 0.61 percent of the total budget is spent on environmental protection. Environmental protection includes areas such as waste management, sewage control and pollution reduction. Despite the existence of a pollution control fee on petrol and diesel since 2008 the utilization of funds for pollution reduction has remained insignificant

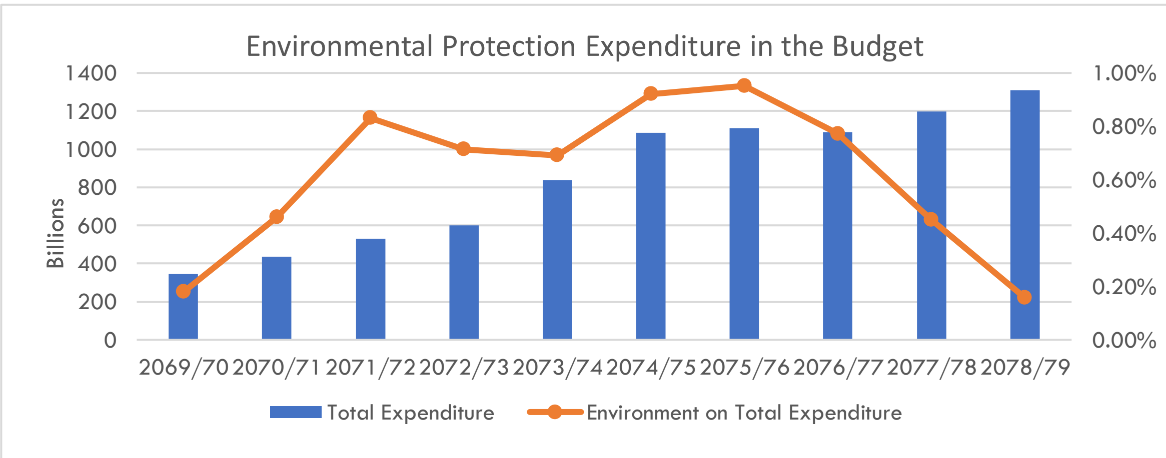


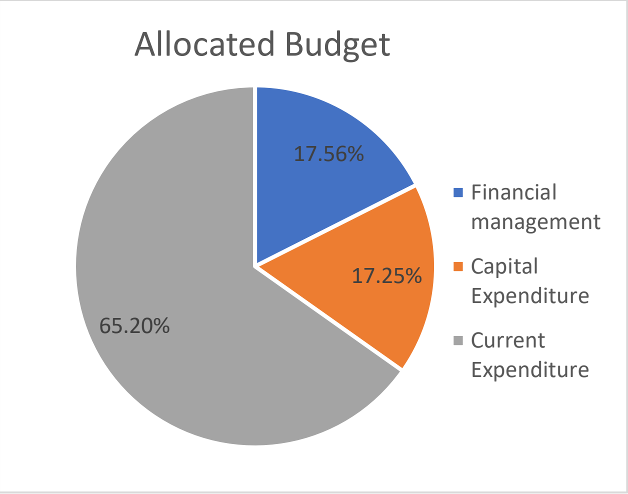
Figure 28: Environment Protection Expenditure in the Budget

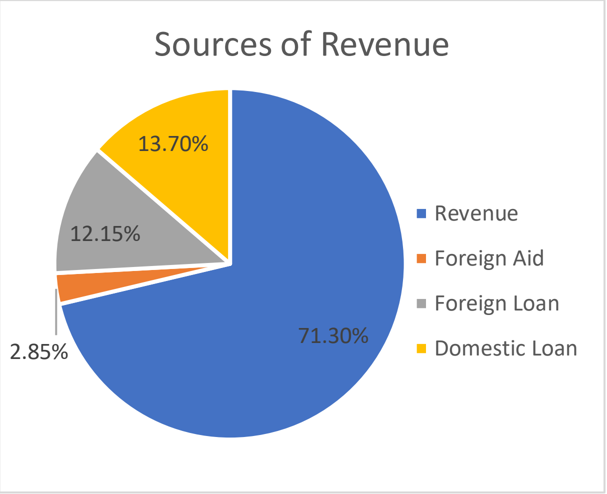
over the past decade as shown in the figure 30. Furthermore, in a country prone to landslides and floods, the government's expenditure on bio-diversity and soil conservation has been dismally low. The highest amount dedicated for this issue was in FY 2070/71 with mere Rs. 3 crores expenditure to this problem. Government policies and programs must now move on towards environment management rather than environment protection.

11. Budget Analysis of Nepal FY2080/81

Finance Minister Dr. Prakash Sharan Mahat announced the budget allocation for the FY 2080/81 on June 15, 2080. This marks the 73rd budget of Nepal, with the first budget being presented in B.S. 2008. Over the years, Nepal's budget has seen significant growth, starting from 52.5 million and reaching 36 billion after the political change in 2046. In the financial year 2061/62, the budget surpassed 1 billion, and currently, it stands at around 17 kharba.

For the FY 2080/81, the allocated budget amounts to 17 kharba 51 arba 31 crore 21 lakh. This represents a decrease of 2.37 % compared to the previous year's budget allocation, while being 16 % higher than the revised budget. Considering the latest trends, it is anticipated that the actual expenditure for this financial year may be lower than the allocated budget.





From the budget 65 percent of the allocated budget has been allocated for current expenditure, 17 percent for capital expenditure and 17 percent for financial management. The government hopes to generate 71% of the budget from revenue, 3% from grants and the remaining amount from loans.

Over the past decade, a significant portion of the total expenditure has consistently been allocated to the government's current expenditure, and this pattern persists in the current budget. This concerning trend of allocating substantial funds to current expenditure places a burden on the economy. In order to ensure sustainable development, it is crucial to prioritize capital expenditure. However, there is a noticeable decline in the ratio of expenditure directed towards capital, which raises concerns about the long-term prospects of the economy.

Historically, the government has faced challenges in meeting its revenue collection targets. In the current scenario, the government has set a target of collecting Rs. 12 kharba 48 arba in revenue, constituting 71% of the allocated budget. However, considering the trend observed over the past decade, the growth rate of revenue has averaged only about 14 percent. Despite this, the government is aiming to collect 33 percent more revenue in the upcoming financial year compared to the revised revenue of the previous year.

As the foreign aid is diminishing it appears that loans have become a primary source for meeting expenses. Notably, approximately one-third of the allocated budget will be financed through borrowing. While utilizing loans to cover expenses is not inherently negative, the concern arises from the government's inability to effectively channel these funds into productive sectors.

Half of the total amount of debt is spent on debt repayment and loans, while the remaining amount is spent on meeting the administrative expenses of the state. In this way, it does not seem logical to increase the size of the budget by taking loan when the utilization of the loan is not happening in the productive sector.

When analyzing the historical trend and the latest budget, it becomes evident that a significant portion of the budget is allocated to general public services. In fact, a substantial 36% of the upcoming economic budget has been designated solely for general administration expenses, whereas less than half, a mere 17%, has been allocated for development and construction expenses, which fall under capital expenditure.

What is even more disheartening is the inefficient utilization of this allocated 17%. Such a distribution of funds poses challenges in sustaining the economy, and its long-term implications are predominantly negative.

A significant portion, approximately 20%, of the tax revenue is derived from taxes imposed on imports. This highlights our dependence on import taxes as a major revenue source. Consequently, if there is a reduction in imports, the government's ability to generate revenue will be hindered.

Last year, the government implemented stringent import restrictions on luxury goods. As a consequence, the budget size had to be decreased by nearly 20% due to the inability to meet the targeted revenue. Moreover, increasing imports can lead to a decline in foreign exchange reserves, which heavily rely on remittances. Therefore, it is crucial for the government to take proactive measures to enhance productivity within the country.

Looking at the data from the past decade we can say that the government has made many unrealistic targets over the years. The average real growth rate is about 4% over the last decade. For the upcoming FY the government’s target growth rate is 6% but considering all other factors such as inflation, interest rates etc. this looks very unrealistic. During the last decade, the inflation rate has been mostly higher than growth rate and this factor may have hampered our overall productivity of the country.

11.1Agriculture

The significance of the agriculture sector lies in its ability to provide economic resilience during various economic shocks. By prioritizing this sector, the government can alleviate the burden on the service industry and encourage its contribution to overall growth. Over the past decade, the government has consistently emphasized agriculture to bolster the country's growth rate. This year government has allocated 6.4% of the budget towards agriculture.

The potential implementation of a Ganja (Cannabis) feasibility program presents an opportunity to enhance the income of rural communities, provided it is executed in a systematic and well-managed manner. Furthermore, the budget highlights initiatives such as commercial production and processing of Jadibuti (herbs), promoting Nepali paper and clothing bags, which have the potential to contribute to improved income levels.

However, it is concerning that despite the frequent occurrence of human-animal conflicts in the country, the government has not introduced any concrete plans to mitigate these conflicts or reduce animal attacks on its citizens. Addressing this issue should be a priority, as it directly impacts the safety and well-being of the population.

The agriculture sector does not seem to be productive or very profitable. Various schemes and subsidiary provided by the government seems to have failed to bring the intended effect. According to the reports by NRB, the contribution of agriculture to GDP is estimated to be 23.95% for FY2021/22. In comparison, India's agricultural sector contributed about 16.82% in 2021/22. The contribution of industry to GDP is only 13.66% in Nepal whereas it is 25.89% in India.

There are many difficulties in farming. Productivity is low due to poor infrastructure including poor roads and small-scale farming. By diversifying the economy into a new sector such as the manufacturing industry Nepal can reduce its reliance on agriculture and drive economic growth. The government could also reduce its focus on providing subsidy and focus those resources on infrastructure development. The focus towards implementing long-term solutions for farmers, such as facilitating better crop markets and reducing intermediary costs. By doing so, we may address the challenges of farmers and ensure their sustained welfare.

11.2 Health

The budget allocation for the health sector fell from 6.87% in FY 2079/80 to 5.87% in FY 2080/81. The recommended amount for the health sector should be gradually increased to 10%. However, the government has reduced the allocated fund health sector budget by about 17 % compared to last year (this amount is reduced by 38% compared to the last year) which is mainly with the federal government.

The R&D received 10% of the total budget allocated for health (which is lesser than last FY's 14%) which is primarily with the federal government.

The government had also promised to reduce the exorbitant expenditure on health services through the National Health Insurance Program of Nepal, however the health insurance program has not been prioritized in this budget.

11.3 Environmental Protection

The persistent negligence of the government in addressing environmental concerns over the years has resulted in a severe pollution problem in numerous cities across Nepal. It is disheartening to note that a mere 0.49% of the upcoming fiscal year's budget has been allocated to tackle this pressing issue.

At a time when pollution has significantly impacted the lives of urban dwellers, it is disappointing that the government's priorities lie in the fencing of forest areas to limit the intrusion of wild animals into farmlands. Considering that the majority of our population now resides in cities, with urban populations steadily growing, urgent attention must be given to crucial matters such as waste management and sewage control. Unfortunately, the government continues to allocate the majority of its resources towards rural areas, neglecting the pressing problems faced by urban residents.

In recent years, Kathmandu has faced significant challenges in waste management, while the Terai region has struggled with recurring malaria outbreaks. Additionally, Kathmandu witnessed a dengue epidemic last year. These issues underscore the critical need for increased funding allocation in these sectors to address and resolve these urgent concerns. To tackle these issues effectively, the government should prioritize the development of waste management infrastructure, including the establishment of waste treatment facilities. It is imperative to adopt a proactive approach in future budget allocations to effectively address these pressing environmental challenges.

11.4 Disaster Management

We already know that the Disaster Risk Reduction and Management Authority lacks the required technical manpower. But this year's budget statement also did not seem to address the matter. Likewise, it is mentioned in point no. 385 that settlements at risk of natural disasters should be identified and relocated to safe places. But if the current National Reconstruction Authority were to take into account the lessons learned during settlement relocation, it should not only be "settlement relocation" but "settlement relocation with employment, culture, and local architecture", which is not mentioned in the budget. Also, the budget does not seem to encourage the distribution of mandates among the three governments in terms of who will work in which disaster.

Arrangements for the purchase of materials and training for fire risk control are mentioned in point no. 118, but no budget has been allocated for research to find out the reason for the increase in fire risk. The budget has been allocated for the construction of local and rural roads (point No. 336). However, the budget statement seems to be silent about the damage caused by the landslides after road construction and the financial and technical resources needed to control those landslides due to the possible technical errors that may occur during the construction of the road (such as lack of water control system and the indiscriminate dumping of soil from road digging).

Extensive geological study, research and mapping are required for the availability of economically beneficial minerals within Nepal and their extraction. But the budget does not seem to be allocated for this purpose.

11.5 Social Security

The allocated funds for social security for the upcoming FY are almost 12.53% of our budget. If we look at the past trend, the government has spent majority of the funds towards senior citizen. Majority of the population is unable to reap the benefits from this expenditure. Introducing legislation that classifies elderly citizens based on their level of need may help reduce costs in this area and allow resources to be allocated to those who require them the most.

11.6 Education

The education sector has received the highest allocation of budget compared to other sectors, accounting for 11.29% of the total budget this year. This recent move by the government is encouraging, particularly considering the decreasing expenditure in this sector in recent years. The budget also emphasizes the implementation of accreditation measures to ensure quality education, a topic that has been mentioned in previous budgets but has faced slow implementation.

Proper implementation of accreditation processes can guarantee the provision of quality education and contribute to the production of qualified workforce for the country. However, despite the stated goal of making education accessible to all citizens, the reality is that it is increasingly difficult for the poor and underprivileged to afford education. Education costs are escalating, making it inaccessible for many.

Education should prioritize the development of dedicated manpower to drive the country's progress. However, it appears that we are contributing to the shortage of skilled workforce in foreign nations instead. There is a lack of concrete plans to create an environment that encourages the youth to stay and study within the country when schools and universities are experiencing a decline in enrollment.

The budget and policy program do not address the need to increase the number of teachers in public schools or the implementation of the Compulsory and Free Education Act. These important issues require attention and inclusion in the budgetary plans and policies.

11.7 Can we Implement the Budget?

Over the past decade, the budget has experienced a notable expansion in size. However, the corresponding increase in revenue to accommodate this expenditure has been lacking. As a result, the government has become reliant on loans and aid to meet its financial obligations. This heavy dependence on external sources raises concerns about the sustainability of the budget.

The current economic growth rate stands at a modest 2%, while inflation hovers around 7.76%. Given these circumstances, it appears unlikely that the government will be able to generate sufficient revenue within the required timeframe to fully implement the budget. This presents a challenge that needs to be addressed in order to ensure the budget's feasibility and effectiveness.

A notable highlight of this budget is the emphasis on productivity. However, it is important to acknowledge that this aspect has been consistently mentioned in previous budgets without seeing effective implementation. To truly enhance productivity, the government must prioritize the creation of a conducive business environment that encourages increased productivity levels. Only by establishing such an environment can we expect to witness substantial improvements in productivity across various sectors.

To effectively boost productivity, the government should prioritize lowering the country's interest rates while also safeguarding internal production and markets. It is crucial to take steps that protect the national interest, as past decisions have demonstrated unfavorable outcomes. A prime example is Nepal's membership in the WTO, which was undertaken without adequate planning or consideration, resulting in the inability of many domestic industries to compete and subsequent industry collapse.

Moving forward, the government's future policies should strongly focus on safeguarding the internal market and promoting domestic production. This entails implementing measures that protect local industries and create an environment optimal to their growth and sustainability. By prioritizing the protection of the internal market and fostering a conducive atmosphere for production, the government can pave the way for enhanced productivity and overall economic development.