

Nepal's Federal Budget: Political and Economic Analysis

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SUMMARY

A government budget is a plan that includes estimates of income and expenditure. Due to its public importance, discussions on the budget take place both inside and outside the parliament. These discussions take place on the objectives of budget formulation, priorities, possibilities of implementation, structure, viability, transparency and accountability issues. The budget for the fiscal year 2024/025 was passed by the Parliament on June 25, 2024. Even though some members of the ruling parties were unhappy with it, the budget is generally passed through majority because there is no practice of amendments once it is presented.

Nepal's economic growth rate is expected to be limited to 3.9 percent in 2024/025 due to various reasons like lower demand for goods and services, slow credit expansion, and productive sector operating in less than full capacity. Revenue is the main source of Nepal's budget. However, while the amount of loans given to Nepal by international development partners has increased, the share of grants has decreased.

A long-term issue is that political party leaders influence the budget to ensure more projects are allocated to their constituencies and districts so they can take credit for them. This time, too, it was found that the minister's district received more budget than others. Despite the federal government's statement that it will not implement projects costing less than 30 million rupees, 99 projects costing just one hundred thousand rupees each were included in the budget for 2024/025.

Political parties have been competing to gain popularity through distribution of social security allowances. As a result, a big chunk of budget has been used to cover social security allowances and it is essential to consider distributing to specific target groups who need it. The share of recurrent expenditure is increasing, along with increasing budget for fiscal arrangements to pay loan interest and principal amount. Capital expenditure has been impacted by both of these factors, resulting in the expected outcomes not being achieved. Additionally, rate of capital expenditure is significantly lower than the allocated amount further affecting in achieving expected outcomes.

The tendency to spend greater share of budget towards the end of the fiscal year puts extra pressure on public expenditure management and increases the possibility of irregularities, reducing the quality of infrastructure and other programs. Strict implementation of laws is necessary to prevent such issues. While ritualistic discussions are held before and after the budget, the problems could be solved if economic issues, their dimensions, and solutions were focused on within political and parliamentary party committees. However, political parties have not been able to practice this. Parliamentarians try to influence the budget to allocate more funds for their constituencies, but there is a lack of structural reforms to create a scientific approach to the budget system.

INTRODUCTION

A government budget is primarily an annual economic plan of a country. While the budget contains the outline of the country's annual income (revenues) and expenditure, it is much more than the annual income-expenditure document. It is a policy framework that prioritizes programs according to the needs of the citizens, and an instrument to manage public resources and ensure fiscal responsibility. Budget also provides an opportunity for the political parties to fulfill the promises made to voters in their election manifestos.

After the promulgation of the Constitution in 2015, there has been a practice of presenting the budget in the last week of May (Jestha 15 according to Nepali calendar) every year. Finance Minister Barsha Man Pun presented the budget for fiscal year (FY) 2024/025 on May 28 (Jestha 15), 2024 in a joint session of both Houses of the parliament. The budget has gone through discussion in the parliament and has been passed. It will go into effect from mid-July (Shrawan 1 according to Nepali calendar). The way the government collects taxes and decides to spend it has a direct impact on the lives of the citizens. In this context, this update deals with the review and analysis of the FY 2024/025 budget.¹

In the first section, budgetary analysis has been done in the context of state governance and the rights of the citizens. The second section touches on the economic update of Nepal and the budget structure and practice. Budget allocation and expenditure mediums is also discussed in this section. The section also includes sources of budget and breakdown of budget according to ministries and headings. The third section analyses how political interests are reflected in the budget allocation. The final section is the conclusion.

1. RELATIONSHIP BETWEEN FUNCTIONING OF STATE, RIGHTS OF THE CITIZENS AND BUDGET

In a democratic governance system, a budget is necessary for the functioning of a state. Budget is a tool

that prevents the government from fiscal indiscipline, arbitrary taxation and expenditure. It can increase accountability, transparency, and responsibility in terms of government functioning. The budgeting process involves formulating a plan to budget allocation, presenting it in the parliament and receiving comments from different sectors. A balanced budget where revenues and expenses are equal is needed for economic stability. Worldwide the budget formulation process includes elements such as resource allocation, ease in production process of goods and services, economic stability, progressive taxation and redistribution of income through social welfare schemes, establishment of social order, transparency and accountability.

In the context of Nepal, among the four major sources tax revenue is the main source of budget. Tax revenue includes customs, value-added tax, income tax, property tax, and excise duties. These are collected from individuals and businesses. The second source of revenue is non-tax revenue and the source for these includes government properties, application fees, and fees paid due to non-compliance with laws. The third source is the domestic debt collected from domestic sources and external debt collected from other countries and international organizations. Grants constitutes the fourth source of income.

Since the fiscal year 1998/099, budget began to be categorized into recurrent, capital, and fiscal management.² With the implementation of federalism, provincial and local levels were created. Currently, the federal government divides government revenues and provides grants to the provincial and local governments. The main source of revenue for the budget presented by the finance ministers of various political parties is indirect taxes (customs, excise duty and value added tax). In all preceding budgets, salaries and allowances for employees and political officials make up the largest portion of

¹ Unless specified otherwise, all the data for this analysis were retrieved from the Ministry of Finance website <https://www.mof.gov.np>.

² Recurrent expenditure generally includes employee salaries and allowances, fuel allowance, operational expenses, interest and grants. These kinds of expenses are recurrent in nature. Capital expenditure includes equipment that can be used long-term and helps in production process, buying necessary machines and equipment, construction of buildings and other infrastructures. Expenses that occur for loans and investment fall under financial management. For more detailed explanation please see: Financial General Comptroller Office. 2076. *Ekikrit Arthik Sanket Tatha Bargikaran ra Byakhyā 2074* (Second Edition). Kathmandu: Financial General Comptroller Office.

recurrent expenditure, averaging 60 to 65 percent in the budget presented by all ruling political parties.

After the political changes in 1950, the interim government's Finance Minister Subarna Shumsher Rana presented the country's first budget in 1951. Since then, 76 budgets have been presented up to the current fiscal year. Although, all the political parties that have come to power claim that they have presented budgets in accordance with their political tenets, there have been no substantial differences in their budgets.

Nepali Congress claims to favour a socio-economic system based on democratic socialism. The Panchayat system had been implemented on the basis of nationalism. Rastriya Prajatantra Party which was established by previous *Panchas* considers Hindu religion and the monarchy as supreme system. CPN (UML) portrays itself as following multiparty democracy by presenting itself as an alternative that follows the traditional socialist system. CPN (Maoist Centre) portrays itself as a revolutionary communist party and it came into mainstream politics through armed struggle.

Above mentioned political parties have presented budgets at least five times each. However, despite the public assurances made by these parties, no political party has managed to formulate a budget that has introduced new style of thinking or working in terms of budget's aim, prioritization, programs, goal setting, sources of financing, areas of expenditures, budget implementation, and fixing the weakness in budget implementation.³ Regardless of ideological differences, none of the political parties in power have put forth plans and programs that prioritize poor people, marginalized communities and backward areas.⁴

2. BUDGET STRUCTURE AND TRENDS

This section briefly delves into an economic overview of Nepal and presents comparative analysis of income source and expenditure of the last five fiscal year budgets.

³ Poudel, Bishwa. 2081 B.S. Rana Shasan Dekhi Ganatantra Samma: Rajniti le Nabadliyeko Arthatantra. *Onlinekhabar*. Baishak 10. Available at <https://www.onlinekhabar.com/2024/04/1468256>, accessed on June 24, 2024.

⁴ Views shared by Economic Analyst Murahari Parajuli at the Democracy Dialogue event titled Politics and Economy of Budget jointly organized by DRCN and Martin Chautari on June 18, 2024.

A. ECONOMIC OVERVIEW

It is estimated that the economic growth rate in FY 2023/024 will be limited to 3.9 percent due to various factors including decrease in demand of consumer goods, slowdown in credit expansion, productive sector operating in less than full capacity, and lack of increase in exports. The data shows that till mid-April 2024, the country's inflation rate was at 4.6 percent.⁵ In the first ten months of the FY 2023/024, imports have decreased by 2.8 percent and exports have decreased by 3.7 percent. The Balance of Payments is at surplus of Rs. 365 billion and the Gross Foreign Reserves is enough to import goods and services for 15.2 months. The remittance increased by 19.8 percent in the same period.

The revised estimation states that for FY 2023/024 the total government expenditure will be Rs. 1530.350 billion which will be 84 percent of the allocated amount. Among the total government expenditure, the revised estimations state that of the allocated amount Rs.1067.49 billion will be under recurrent expenditure (93.5 percent), Rs. 215.30 billion (71.3 percent) will be under capital expenditure, and Rs. 247.55 billion (80.5 percent) will be under fiscal arrangement. Similarly, according to revised estimation government revenue collection will be Rs. 1253.52 billion, foreign grants will be Rs. 34.34 billion, foreign loan mobilization will be Rs. 145.44 billion and internal debt mobilization will be Rs. 191 billion.

B. BUDGET ALLOCATION AND EXPENDITURE

In Nepal, the past trends shows that there has been no annual budget that has been spent as allocated and this has weakened the credibility of the budget. It has also given the message among public and development partners that the budget allocation and expenditure as presented is less likely to be implemented. The following graph (Figure 1) shows the budget allocation and expenditure data for the past five fiscal years. The graph

⁵ Ministry of Finance. 2081 B.S. Sanghiya Sansad ko Sanyukta Baithak ma 2081 Jesta 15 gate Artha Mantri Barsaman Pun le Prastut Garnubhayeko FY 2081/082 ko Budget Baktabya. Available at https://mof.gov.np/uploads/document/file/1717240542_बजेट%20वर्तन्य%20२०८१-८२.pdf, accessed on June 24, 2024.

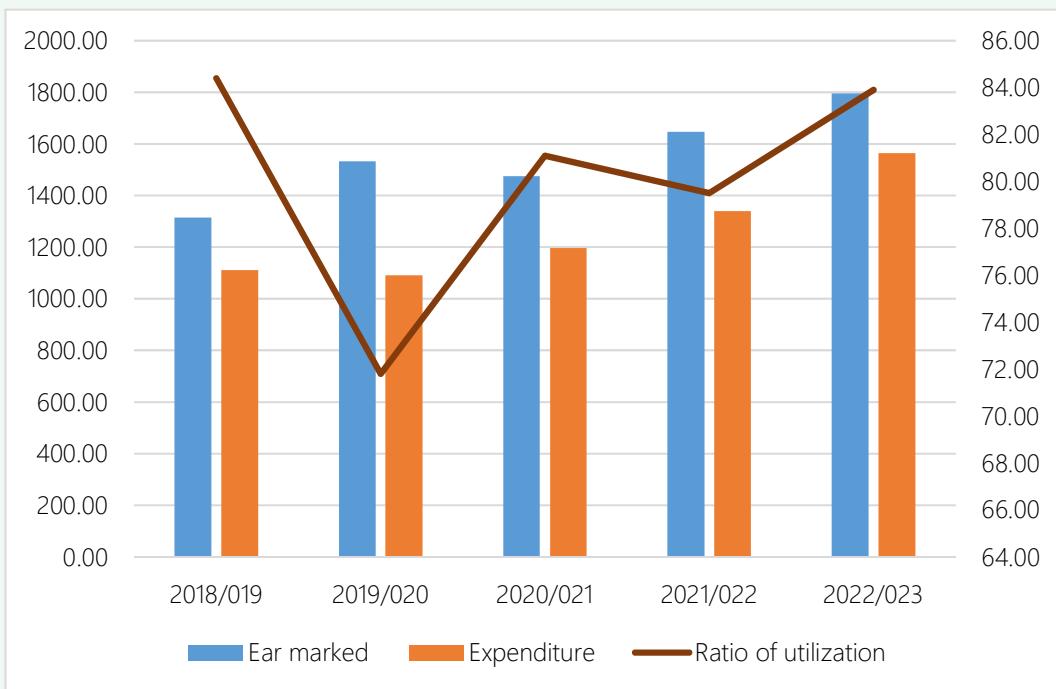


Figure 1: Budget allocation and Expenditure (in billions) and Budget Utilization Rate

shows that only 84 percent of the allocated budget was spent in FY 2022/023. Further breaking down the total expenditure into recurrent, capital, and fiscal arrangement shows that the share of capital expenditure is even lower (less than 60 percent after the promulgation of the new constitution).⁶ Despite the expectation that presenting and passing the budget on a fixed date (Jestha 15) would make the budget implementation impactful, this has not been the case. Before the promulgation of the Constitution, the budget was typically presented in the month of *Asar*, however there was no fixed date of its presentation. In some years, the budget was not presented in the month of *Asar*. For instance, the Finance Ministers Mahesh Acharya presented the budget in *Poush* 2051 B.S., Ramsharan Mahat presented the budget in *Asoj* 2052 B.S., and Baburam Bhattarai presented the budget in *Ashoj* 2065 B.S.

Lack of proper preparation for budget formulation, arbitrariness in selection of plans and programs, prioritization done on the basis of political interference, and bureaucratic red tapism has resulted in lower capital expenditure. In addition, insufficient budget allocation for programs, lack of skilled manpower, frequent transfer of

project heads, leakages and corruption, lengthy process of public procurement, abysmal performance of construction businesses, and weak monitoring and evaluation process has hampered the capital expenditure process.

C. BUDGET EXPENDITURE TRENDS

The Intergovernmental Fiscal Arrangement Act 2017 has mandated the federal, provincial, and local governments to prepare Medium-Term Expenditure Framework.⁷ The expenditure framework helps to assess the means and resources available to the government to allocate resources to the priority areas of the five-year plans for the medium term. Under this a comprehensive economic framework should be created that includes the government's resources, revenues, internal debt, and foreign grants and debt, however due to this framework not being followed the budget has ended up being unnecessarily inflated.

The following table (Table 1) shows the data from the latest five fiscal years, which indicates that on average the budget size has grown by 11.2 percent annually. The FY 2024/025 budget has increased by 6 percent

⁶ Gauchan, Bishwas. 2024. 2081/82 Budget Suggestions to The Ministry of Finance- Key Measures To Address Economic Challenges. IIDS. Available at [Suggestions_MOF.v3 \(iids.org.np\)](https://iids.org.np/Suggestions_MOF.v3), accessed on June 24, 2024.

⁷ Nepal Government. 2017. Intergovernmental Fiscal Arrangement Act 2017. Available at https://www.mof.gov.np/uploads/document/file/अन्तर-सरकारी%20वित्त%20व्यवस्थापन%20एन.%20२०७४_2017114092336.pdf, accessed on June 26, 2024.

in comparison to the FY 2023-024. This is lower in comparison to the average rate of growth in the last five years. Thus, in terms of size the budget presented is not so huge that it is unachievable.

Table 1: Last five year's annual expenditure and rate of increase in budget (in billions)

Fiscal Year	Expenditure Amount	Growth Rate
2019/20	1091.1	-
2020/21	1196.6	10%
2021/22	1310.0	9%
2022/23	1505.0	15%
2023/24	1751.3	16%
2024/25	1860.2	6%

D. SOURCE OF BUDGET

The means through which the government finds sources to finance the budget is referred to as the budget source. Despite the public's understanding of the government being poor and the government heavily dependent on foreign loans and support, the main source of Nepal's government revenue is taxation. Except for exceptional cases such as earthquake, blockades, and pandemic, the government has managed to collect tax according to the target it has set.⁸ It is also often heard that Nepal will fall in foreign debt trap. However, some economists argue that since Nepal's foreign debt is only 22 percent of the country's total GDP, and that the debt repayment period is long and has a lower interest rate, Nepal is not in immediate danger.⁹

The Finance Minister has estimated that in FY 2024/025, out of the total expenditure of Rs. 1.86 trillion, 76 percent will be collected through taxation. Figure 2 shows that taxation occupies a big part of the budget. The figure also showed that domestic debt has been increasing and foreign debt has been almost stable. Domestic debt is expensive compared to foreign debt. A negative aspect

⁸ Adhikari, Kedar Bahadur, Rammani Duwadi, and Jham Kumar Bishwokarma. 2078 B.S. *Nepal Sarkar ko Barshik Niti Tatha Karyakram Tarjuma ko Bisayabastu ra Karwanyan ko Samishyaktmak Adhyayan*. Kathmandu: Niti Anusandhan Pratisthan.

⁹ Dahal, Ashok. 2022. Nepal ko Baideshik Rin: Nepal Sri Lanka Jasto Atyadhidhi Bideshi Rin Ko Jokhim Bata Kina Mukta Cha? *BBC News Nepali*, July 30. Available at <https://www.bbc.com/nepali/news-62265264>, accessed on June 27, 2024.

of higher domestic debt is that it diverts resources from the private sector to the government sector. However, the country may not be able to get foreign debt at an affordable interest rate. If the country is unable to utilize the debt amount by investing it into the productive sector, then the debt will just end up creating extra financial burden for taxpayers. In the current FY 2023/024 and the upcoming FY 2024/025, the government has allocated a higher budget for fiscal arrangement to pay back principal amount of the debt, in comparison to capital expenditure. Bishwo Poudel, the former Vice-Chairperson of National Planning Commission, mentioned that if a large portion of the annual budget gets centered around paying back debt, it could create problems for the country in the future.¹⁰ He further added that unless a long-term taxation source is identified, it would become difficult for the government to be able to provide social security allowance, government worker salaries, and retirement benefits.

Despite foreign grants remaining low in past years, there is an estimation that it will increase in the upcoming year. Nepal, which is in the process of graduating from a Least Developed Country status, has received a low amount of foreign grants in the past. The Development Cooperation Report released by the Ministry of Finance also shows that Nepal has been receiving higher amounts of loans instead of grants from its development partners.¹¹ Thus, it is likely that foreign grants to Nepal will decrease in the coming years.

E. REVENUE SOURCES

Figure 3 shows the sources of government revenue. Due to the overall changes in the economy, tax revenue collection has become less dependent on foreign trade. As a result, for FY 2024/025, customs duty collection has been estimated to be 20 percent of the total revenue. In the past, custom duty would occupy up to 35 percent of the total government revenue. The portion of indirect

¹⁰ Setopati. 2081 B.S. Ahile Sarbajanik Bitta Ma Gahiro Samasya Cha: Poudel. Setopati, Asar 11. Available at <https://www.setopati.com/kinmel/banking/332801>, accessed on June 26, 2024.

¹¹ Ministry of Finance. 2023. Development Cooperation Report 2021/22. Available at https://www.mof.gov.np/public/uploads/document/file/1704553778_1702976966_DCR%20Report%202022_9.pdf, accessed on June 26, 2024.

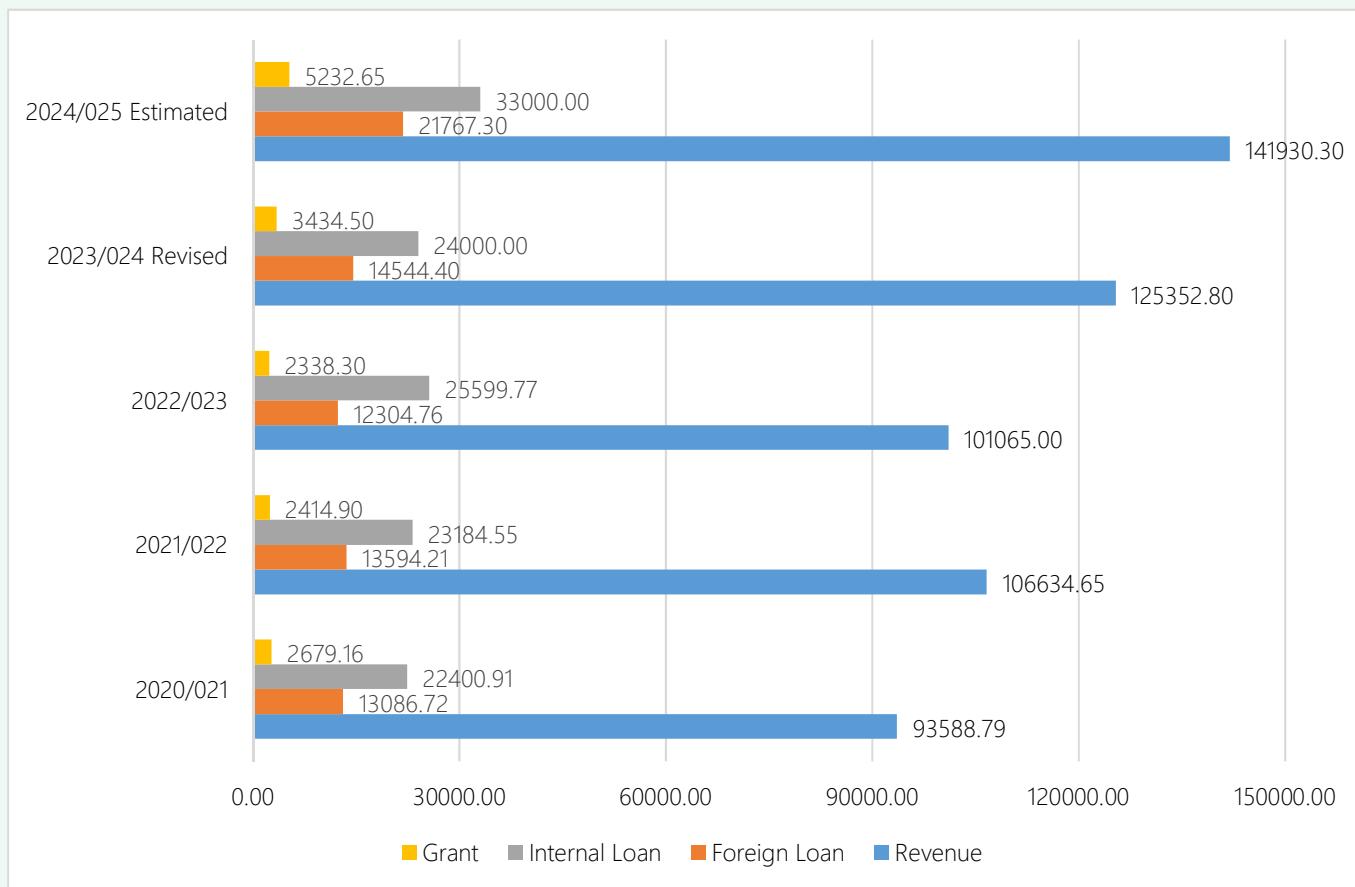


Figure 2: Source of Budget (in billions)

taxation in revenue collection remains higher. Additionally, direct taxes, whose burden cannot be shifted, occupy a higher portion of the government's revenue collection. In the upcoming fiscal year, customs duty, value-added tax and excise duty, which fall under the category of indirect taxes make up 61 percent of the total government revenue. Direct taxation which includes income tax and property tax, contributes to 29 percent of the total government revenue.

F. CLASSIFICATION OF BUDGET EXPENDITURE

The question of where taxpayers' money gets spent is a matter of public concern. A major part of budget is allocated for recurrent expenditure. Including the data for the upcoming fiscal year, an analysis of the past five years shows that, on average 68 percent of the budget has been allocated for recurrent expenditure, 17 percent for capital expenditure, and 14 percent for fiscal arrangement. While the budget allocated for fiscal arrangement has been less than the capital expenditure in the past, it is expected to exceed in the upcoming fiscal year. Due to high debt

repayment, both principal and interest, it is estimated that in the upcoming fiscal year, 20 percent of the budget expenditure will be for fiscal arrangement and 19 percent for capital expenditure.

G. MINISTRY-WISE BUDGET DISTRIBUTION

The ministry-wise budget distribution provides insights into the federal government's focus areas in terms of budget expenditure. Since past many years, salaries, allowances, domestic and external debt mobilization, pensions, and other similar expenses have been managed through the Ministry of Finance (MoF). This has resulted in MoF receiving a larger budget share. For FY 2024/025, MoF has received 41.2 percent of the total budget. Meanwhile, the ministries and the constitutional bodies that have each been allocated less than 1 percent of the total budget together account for 7.7 percent of the budget.

There is a tendency among ministers to gain political advantage by allocating a higher budget to their respective ministries, often leading to conflicts between

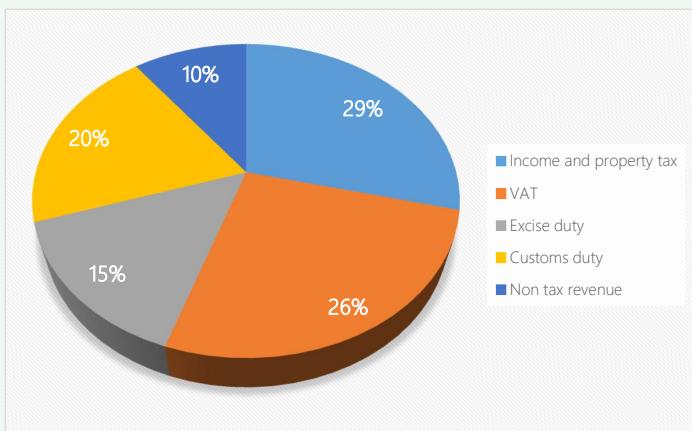


Figure 3: Sources of Government Revenue

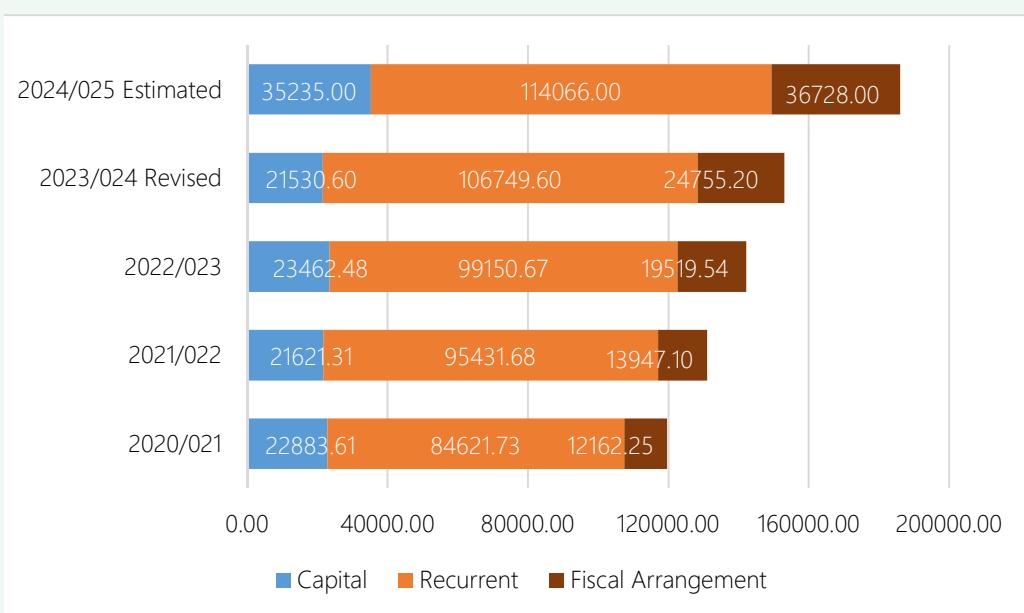


Figure 4: Budget Expenditure Distribution (in billions)

them. The Finance Minister Barshaman Pun had stated that the budget would be allocated to programs selected through prioritization and projects without guaranteed sources of financing would not be selected. However, an official involved with budget formulation claimed that Raghbir Mahaseth, the Minister of Physical Infrastructure and Transportation had sent 12 officials from the ministry at the last moment to include projects worth more than 25 billion in the budget.¹²

The National Planning Commission has released the Medium Term Expenditure Framework for the upcoming three years to guide the process of budget formulation.¹³

¹² Bhattari, Bhagwat. 2081 B.S. Budget ma Artha Mantri 'Niraha', Artha Ma Pugera Raatbhar Bhautik Team Le Halyo 25 Arba Ka Naya Karyakram. *Setopati*, Jestha 13. Available at <https://www.setopati.com/kimmel/economy/330451>, accessed on June 28, 2024.

¹³ National Planning Commission. 2080 B.S. *Agami Tin Barsa (FY 2081/82-2083/84) ko Budget Tarjuma ko Lagi Budget Seema*,

The guideline clearly states that the central agency must send details of any project it wants to undertake to the national project bank, either directly or through its intermediary government offices. Without the inclusion of project details on the national project bank, it cannot be included in the budget. However, there have been instances where various projects that are not listed in the national project bank have been included in the budget in the last minute.

H. SECTORAL BUDGET ALLOCATION

The budget can also be analysed through the lens of its sectoral allocation. A detailed description of sectoral distribution of budget is provided at annex of the budget speech. The largest portion of the federal budget is spent on the public services sector. In simple terms, this expenditure covers salaries and allowances to political and administrative officials, operational activities of government offices and

public service delivery. In the upcoming fiscal year, it has been estimated that half of the total budget (50.1 percent) will be spent under this heading. Public service includes activities related to people's everyday life such as citizenship certificate, passport services, civil registration, and sale and purchase of land and property registration falls under public services. Under this, the highest amount of expenses is for infrastructure, management overview, and human resources. The next highest expense is for economic affairs which includes trade, labour, agriculture, forestry, energy, mining, transportation, and communication. 20.6 percent of the total budget has been allocated for this.

Madhyamkalin Kharcha Samrachana ko Khaka Tatha Budget Tarjuma Sambandhi Margadarshan ra Dhancha, 2080. Kathmandu: National Planning Commission. Available at <https://npc.gov.np/images/category/240225031927Budget%20and%20MTEF%20Guidelines%202080.pdf> accessed on June 25, 2024.

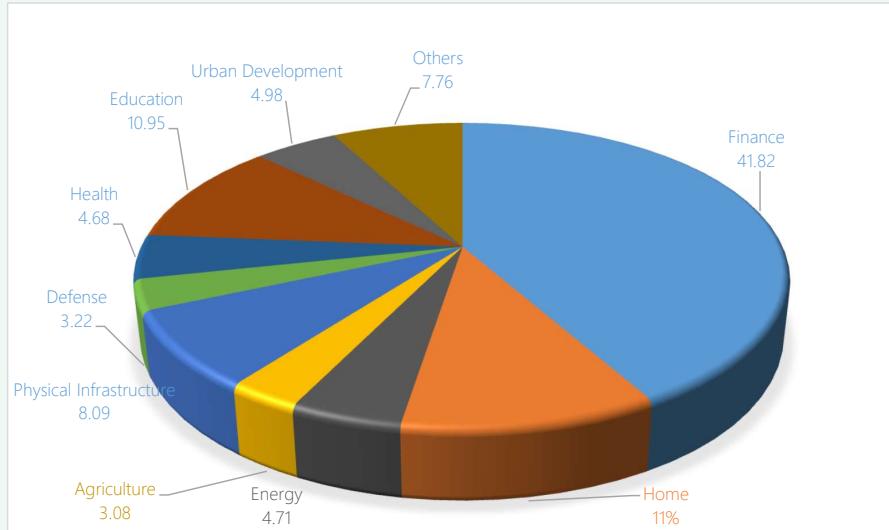


Figure 5: Ministry-wise Budget Distribution

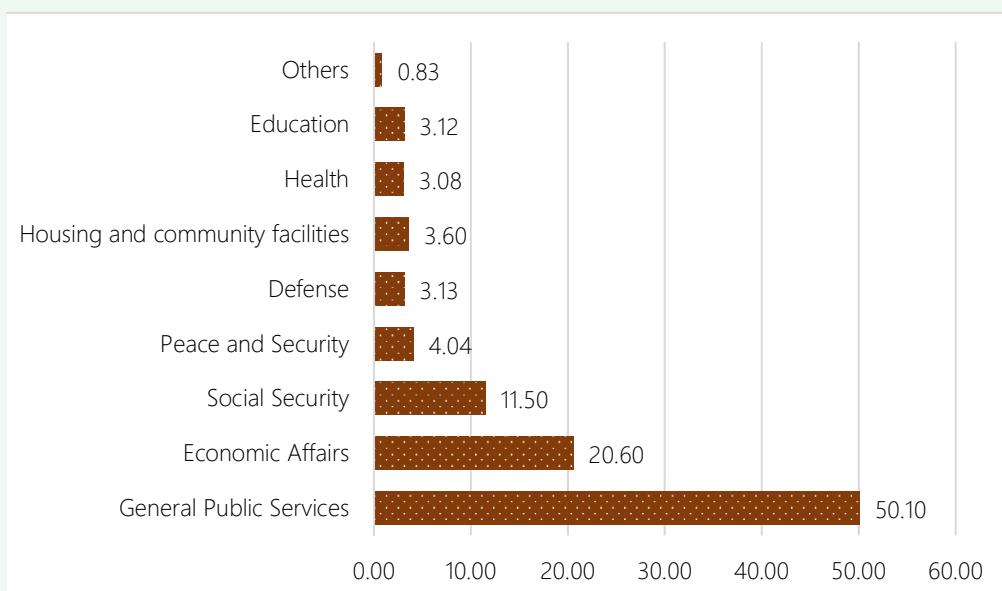


Figure 6: Sector-wise budget allocation (in percentage)

Lately, social security programs have been occupying a larger portion of the government budget. In the FY 2024/025, 11.5 percent of the total expenditure has been allocated for social security programs. Almost equal amounts have been allocated for education (3.12 percent), health (3.08 percent), and defense (3.13 percent) sectors. 4.1 percent of the budget has been allocated for the internal peace and security. Since the local and provincial levels also allocate budgets for education and health, the federal spending on these headings look smaller. Army (Defense) and police (internal security) falls fully under the purview of the federal government, and as such local and provincial levels do not allocate budget for these headings.

I. EXPENDITURE ON SOCIAL SECTOR

It is believed that expenditure in social services is necessary to increase social welfare, reduction of poverty and income inequality, provide economic and social stability, and long-term development of human resources. Sustainable Development Goals, of which Nepal is one of the signatory also emphasizes on these aspects. 9 of the 17 objectives of the sustainable development goals are directly connected with education, health, and social security programs.¹⁴

¹⁴ National Planning Commission. 2023. *Sustainable Development Goals: Revised Indicators*. Kathmandu: National Planning Commission. Available at <https://npc.gov.np/images/category/231120>

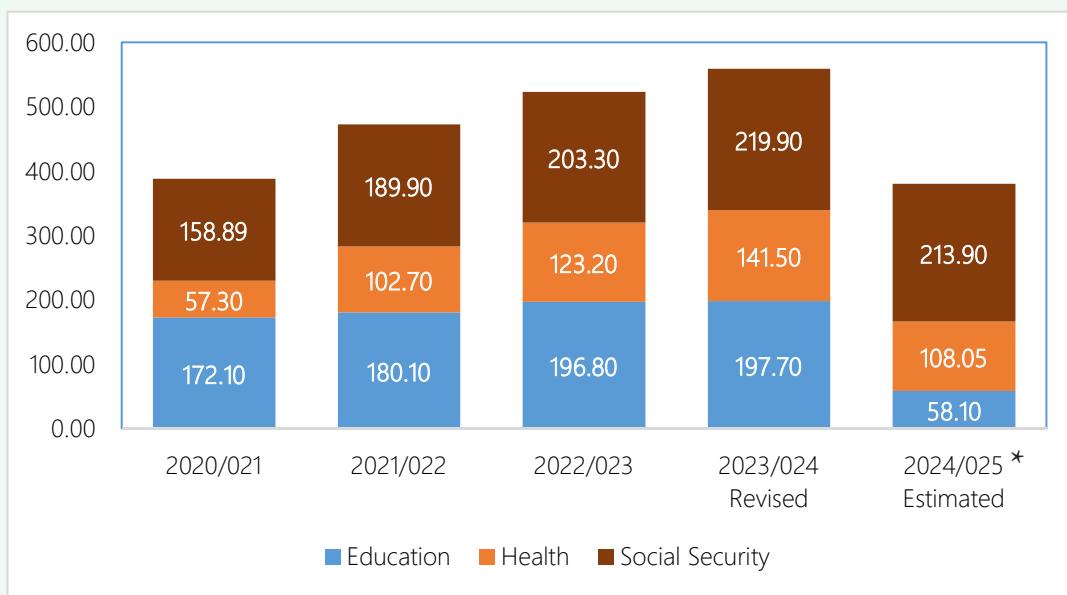


Figure 7: Budget Allocation in Social Sector (in billions)

* This budget does not include the budget allocated by local and provincial governments.

The upcoming budget has allocated 380 billion for the social sector. Under this, 214 billion for social protection schemes, 108 billion for health, and 58 billion for education. The budget allocated for social protection, health and education in FY 2024/025 is less than that of the current fiscal year. The Figure 7 shows the trend of budget allocation in the social sector in the last five years.

year. This data is also considered while formulating the budget. Few days after the Finance Minister presents the budget, discussions takes place on theoretical aspects of the budget, ministry-wise budget allocation bill, revenue related Public Taxation and Revenue bill, and Loans and Guarantees bill at various stages.

Questions about the budget's size, priorities, allocation, and implementation are often raised. Annually, there are complaints about the budget being funnelled into the ruling party's politicians, ministers, and parliamentarians' constituencies. Similarly, there are also complaints of tax rates being adjusted according to the demands of businesses that have close ties to the ruling parties. Few tax adjustments that raised eyebrows in the past included an increase in customs for sugar imports, decrease in customs for chocolate import, increase in tax rate for production of sanitary pads, and increase in customs for books import. Other budget-related disagreements have included the custom rate argument among sponge iron and smelting industries, VAT imposed on potatoes, fruits, and onions, and increase in tax rate of electric vehicles import.

The budget presented for FY 2024/025 has been passed through the parliament on June 25, 2024. Even if there are intense discussions and disagreement in the parliament, there are no mechanisms in place to amend the budget. Even when parliamentarians belonging to the ruling government have voiced opposition to provisions

3. POLITICISATION OF BUDGET

Before and after the budget is presented in the parliament, discussions are held at various stages about the government revenue and expenditure. The aim of these discussions is to figure out how to achieve maximum return by utilizing the available resources. The budget principles and priorities are presented in the parliament to guide the budget discussions. Similarly, the President presents the Annual Plans and Policies in front of both Houses of the parliament. Based on the budget principles and priorities and the government's plans and policies, the parliamentarians provide their comments and suggestions. The Finance Minister presents the budget incorporating the comments and suggestions received. The day before the budget is presented in the parliament, the Finance Minister presents the economic survey based on the eight months of data of the current fiscal

in the budget, it has been passed through the majority support.¹⁵ Due to this, there are people who feel that the budget related discussions in the parliament are mere rituals.¹⁶ Economic analyst Achyut Wagle claims that the pre-budget discussions are not productive.¹⁷ Wagle argues that because the Minister and officers do not take suggestions from these discussions seriously, these pre-budget meetings are only limited to intellectual debates and do not have actual impact on the budget system or allocation.

Another long-term problem in regards to budget formulation has been the people in positions try to abuse their power by allocating higher budgets in their constituencies. Such politicians, parliamentarians, and ministers treat the budget as their personal resource. This kind of practice has specially benefitted the politicians belonging to senior leaders who are in higher positions in their parties, and those who have repeatedly held ministerial positions. Raghbir Mahaseth, Minister of Physical Infrastructure and Transportation has allocated Rs. 8.77 billion to his home district Dhanusha.¹⁸ Further, most of this budget is concentrated in Mahaseth's own constituency (Dhanusha-4) and his wife Juli Mahato's constituency (Dhanusha-3). Similar complaints have also been made about Bharatpur metropolitan city, election constituency of Prime Minister Pushpa Kamal Dahal's daughter Renu Dahal, receiving higher share of budget. The parliamentarians also decried the high number of programs under Physical Infrastructure and Transportation Ministry being implemented at the election constituency of CPN (UML)'s Chairperson K.P. Sharma Oli.¹⁹

¹⁵ Kantipur. 2081 B.S. Budget Shakti ra Pahuch ko Adhaarma Binyojit Bhayeko Bhandai Satta Pakchya Batai Birodh. Asar 5. Available at <https://ekantipur.com/news/2024/06/19/opposition-from-the-ruling-party-saying-that-the-budget-is-allocated-on-the-basis-of-power-and-access-28-47.html>, accessed on June 27, 2024.

¹⁶ Aryal, Narayan. 2081 B.S. Budgetma Byarthako Chalpal- Na Sujhab Sametinchha, Na Ta Sansodhan Huncha. *Khabarhub*, Asar 7. Available at <https://khabarhub.com/2024/21/650427/>, accessed on June 26, 2024.

¹⁷ Wagle, Achyut. 2081 B.S. Budget Serofero ka Arthahin Karmakanda. *Kantipur*, Baishak 31. Available at <https://ekantipur.com/opinion/2024/05/13/the-meaningless-ritual-of-budget-serbero-19-20.html>, accessed on June 21, 2024.

¹⁸ Adhikari, Dipendra. 2081 B.S. Hubahu Parit Budget ma Mahaseth Kina Bhaye Satta Pratipaksha ko Taro? *Shilapatra*, Asar 12. Available at <https://shilapatra.com/detail/139520>, accessed on June 27, 2024.

¹⁹ Anuragi, Ajay and Ishwar Aryal. 2081 B.S. 4 Super Jilla ra Mantri ko Jilla ma Budget ko Badhi, Anyatra Khaderi! *Lokantar*, Asar 3.

On August 23, 2023 the Supreme Court passed an order against the implementation of the Constituency Development Program or the Local Infrastructure Development Partnership Program.²⁰ Instead such programs have now been implemented through the Department of Local Infrastructure, which is part of the Ministry of Urban Development and such allocation has been continued this year too.²¹ Furthermore, Ministry of Urban Development has also ended up being an easier medium for politicians, ministers, parliamentarians, and government officials to direct programs to their desired area.²²

Nepali Congress Lawmaker Gagan Kumar Thapa claims that the budget for FY 2024/025 will not be able to meet its targets.²³ Thapa argues that the budget is too ambitious that has estimated a high target for foreign grants. He pointed to the data from previous years where the actual grants amount received from development partners has been less than the promised amount and the failure of inquiry from the government's side related to this matter as reasons why the grant amount stated in the budget is a higher estimation. Although the government is formed by multiple coalition partners, the leaders of CPN (UML) have accused the budget being dominated by CPN (Maoist Center). Gokul Prasad Baskota, parliamentarian from CPN (UML) expressed his dissatisfaction with the budget by saying, "This budget looks like it has been prepared by one party. There is no hint of coalition partners."²⁴ He criticized the repeated allocation of budget for a detailed survey

Available at <https://lokaantar.com/story/258162/2024/6/17/economy/budget-analysis>, accessed on June 24, 2024.

²⁰ Himal Khabar. 2080 B.S. Sansad Bikash Kosh Lagu Nagarna Sarbochha ko Aadesh. Bhadra 6. Available at <https://www.himalkhabar.com/news/137671>, accessed on June 26, 2024.

²¹ Dahal, Ashok. 2024. Naya Budget Ma Kharej 'Sansad Bikash Kosh' ko Uddeshya Pura Garna Apanaiyeko 'Ghumauro' Baato. *BBC News Nepali*, May 29. Available at <https://www.bbc.com/nepali/articles/c133j3jvgj8o>, accessed on June 28, 2024.

²² Ghimire, Rabindra. 2081 B.S. Netalai Khudre Yojana Badna Sahari ra Bhautik Mantralaya ko Pratispardha. *Onlinekhabar*, Jesta 16. Available at <https://www.onlinekhabar.com/2024/05/1487107>, accessed on June 26, 2024.

²³ The views expressed by the Nepali Congress law-maker Gagan Kumar Thapa on June 5, 2024 in the house of representative while discussing on the budget. Available at <https://hr.parliament.gov.np/np/video/18610>, accessed on June 21, 2024.

²⁴ The views expressed by the UML law-maker Gokul Prasad Baskota on June 18, 2024 in the house of representative while discussing on the budget. Available at <https://hr.parliament.gov.np/np/video/19002>, accessed on June 21, 2024.

report (DPR) for irrigation project in Mandan Valley and Panchkhal valley in his constituency. He added that under the same heading budget had been allocated by former Finance Minister Bishnu Poudel. Similarly, while criticizing the budget Rajendra Lingden of Rastriya Prajatantra Party appeared on the rostrum in an angry mood, tore up a copy of budget.²⁵ Directing his comments towards the Ministry of Physical Infrastructure and Transportation, he said, "There are no projects in some areas, and projects worth billions in other areas. How can such an activity happen?"

Every year the size of the budget gets criticism. Finance ministers have been generally criticized for going above the limit set by the National Planning Commission and presenting a budget that cannot be implemented. The budget brought for FY 2024/025 is also above the limit set by the National Planning Commission. As the budget is not marginally over the limit, it has not faced the criticism for being inflated. Rastriya Swatantra Party's parliamentarian Swarnim Wagle highlighted the country's increasing ability to spend budget in comparison to the country's Gross Domestic Product (GDP).²⁶ "We have currently been able to spend up to 30 percent of the GDP", he mentioned. He added that the budget's aim could be achieved easily if the country worked around-the-clock like after a disaster situation with a mission to implement it.

The essence of federalism is that smaller projects are undertaken by local levels, medium projects are undertaken by provincial levels, and bigger projects including national pride projects are undertaken by federal level. However, the tendency to allocate budget to smaller projects on behalf of the federal government has continued with this budget too. Five months earlier in Mangsir 13 2080, the council of Ministers led by Prime Minister Pushpa Kamal Dahal had approved Projects Classification Procedures Guideline 2080. Clause 6 of the guideline clearly states that in terms of infrastructure projects, the federal

government will not implement projects with investments less than Rs. 30 million and the provincial government will not implement projects with investments less than Rs. 10 million.²⁷ However, in the FY 2024/025, 99 programs of Rs. 1 lakh have been included in the budget. Laxmi Devi Pandey, the Chairperson of the National Association of Rural Municipalities in Nepal, said that this was against the constitution and essence of federalism. She further added that federalism has been limited to documents and the federal government's way of working is like that of earlier government systems.²⁸ In addition, the problem of insufficient budget being allocated for national level projects including Postal highways, Pushpalal Mid-Hill Highway, Sikta Irrigation project, Babai Irrigation project, and Rani Jamara Kulariya Irrigation project has continued.

4. CONCLUSION

The budget for FY 2024/025 has remained favourable to the established legal and budget implementation practices. There is no discernible difference in the budget's purpose, priorities, structure, and its aim from previous year's budgets. Although there have been few illuminating comments made by the political parties regarding the new budget, the budget not being free of political influence is easy to observe. This budget is similar to past budgets and has not been able to create a new path. It has not offered any solution in terms of controlling the ballooning recurrent expenditure and increasing the capital expenditure in development projects. The budget worryingly shows that the government is under pressure to pay back high-interest loans to both domestic and external lenders. Despite the attempts to make the economy lean towards socialism, the budget has not brought any new programs in social sectors (education, health, social security), in fact it has allocated a lower amount to these sectors. There have been no

²⁵ The views expressed by the Rastriya Prajatantra Party law-maker Rajendra Prasad Lingden on June 18, 2024 in the house of representative while discussiong on the budget. Available at <https://hr.parliament.gov.np/np/video/18969>, accessed on June 21, 2024.

²⁶ The views expressed by the Rastriya Swatantra Party law-maker Swarnim Wagle on June 5, 2024 in the house of representative while discussiong on the budget. Available at <https://hr.parliament.gov.np/np/video/18933>, accessed on June 21, 2024.

²⁷ Nepal Government. 2080 B.S. Available at <https://shorturl.at/jrGAa>, accessed on June 26, 2024.

²⁸ Khatiwada, Bimal and Yagya Banjade. 2081 B.S. Palikaka Bhand Saano Yojana Rakhera Sanghiya Budget ko Hurmat: Ek-ek lakh Budget ka 99 yojana. Kantipur, Asar 5. Available at <https://ekantipur.com/news/2024/06/19/respecting-the-federal-budget-by-keeping-smaller-plans-than-those-of-the-municipality-99-projects-with-a-budget-of-one-lakh-each-31-28.html>, accessed on June 23, 2024.

encouraging steps in the budget towards solving the problems of unemployment, discouraging migration, and balancing trade. Even though the Finance Minister has announced the upcoming decade as agriculture decade, the budget for agriculture sector in FY 2024/025's budget is lower than the current budget.²⁹

While competition for expanding social security allowance is used as a means to maintain popularity, it is becoming harder to shoulder the burden for it in the budget. At present, the 20 percent share of recurrent expenditure and 12 percent of total budget is being spent on distribution of social allowances. Thus, it is imperative to find a long-term solution for this challenge. One possible solution could be giving social security allowance to certain target groups that are in need.³⁰ However, the fear of losing popularity has made political parties reluctant to explore this option. In addition to increasing recurrent expenditure, the fiscal arrangement budget is also increasing yearly to pay principle and interest in loans. As a result, capital expenditure has been decreasing and it has been unable to give expected outcomes. Furthermore, in comparison to the allocated amount, the actual capital expenditure is low, which has resulted in poor results. This trend of actual expenses being reflected for recurrent expenditure but not for capital expenditure should be investigated. For the time being, the designated institutions and responsible officials need to be held accountable for inability to spend the allocated capital budget. Also, the trend of infrastructure

development being election and political leaders focused needs to end. Budget allocation has been used as a tool by certain political leaders to earn accolades and cheap popularity. For combating this trend, in addition to legal provisions, public awareness is also necessary.

The 61st annual report by the Financial General Comptroller Office 2081 has suggested to control the practice of allocating large and undivided budget to certain headings and transferring money at the end of fiscal period before budget formulation has been undertaken to make budget implementation effective.³¹ This suggestion has been given as it challenges the established practice in regards to transparency and accountability. The current practice of infrastructure related projects gaining steam around the end of fiscal year has increased pressure on the government's fund, increased the probability of irregularities in construction, and decreased the quality of infrastructure projects and other programs. In Asar of FY 2079/80, 34.5 percent of total budget allocated to capital expenditure was spent.³² To stop this kind of seasonal development work, the legal measures in the system need to be implemented. Although budget discussions happen both before and after the budget has been presented, if the political parties and parliamentary committees became more dedicated about discussing the economy's problems, and its dimensions and solutions, a lot of problems could be solved. The tendency of parliamentarians to focus on bringing a budget to their election area, instead of implementing overall structural changes, has also caused the lack of improvement in the budget system.

²⁹ Chaudhary, Raju. 2081 B.S. Budget Ghatayera Krish Lagani Dashak Ghosana. *Kantipur*, Jestha 16. Available at <https://ekantipur.com/business/2024/05/29/decade-of-agricultural-investment-announced-by-reducing-the-budget-47-29.html>, accessed on June 24, 2024.

³⁰ Acharya, Sanjaya. 2081 B.S. Budget ka Ujyala-andhera Pakchya Haru. *Kantipur*, Jestha 17. Available at <https://ekantipur.com/Opinion/2024/05/30/the-bright-and-dark-sides-of-budgeting-24-15.html>, accessed on June 23, 2024.

³¹ Office of Financial Comptroller General. 2081 B.S. *Mahalekha Parikshak ko Ekshattiau Barshik Pratibedan 2081*. Kathmandu: Office of Financial Comptroller General. Available at <https://shorturl.at/7U09H>, accessed on June 26, 2024.

³² Ministry of Finance. 2080 B.S. *Arthik Barsa 2079/80 ko Barshik Mulyankan Pratibedan*. Kathmandu: Artha Manralaya. Available at <https://shorturl.at/7fHZZ>, accessed on June 24, 2024.

Founded in 2014, Democracy Resource Center Nepal (DRCN) is a national non-governmental organization dedicated to the study and research of social and political issues. Since its establishment, DRCN has consistently undertaken in-depth and evidence-based research into various aspects of Nepal's transitional political landscape, including the implementation of federalism, local-level restructuring, and election observation. The outcomes of these studies are shared with stakeholders, fostering discussions and debates. DRCN's overarching objective revolves around advancing efficient governance within Nepal's federal framework through these rigorous research endeavors and thoughtful discourse.