An Analytical Review of Nepal's Budget FY 2083/84

Introduction

TThe FY 2083/84 budget of NPR 2,124 billion presents one of Nepal's most ambitious reform agendas in recent years, combining tax relief, infrastructure investment, energy expansion, digital transformation, and sweeping institutional restructuring. Finance Minister Dr. Swarnim Wagle has framed it as a "Big Push" for infrastructure and a "Big Bang" for economic revitalization, targeting 7 percent GDP growth and 6 percent inflation. The budget's policy direction is largely sound. The central question is whether Nepal's implementation machinery, its institutional capacity, fiscal realism, and accountability systems, is strong enough to convert allocations into outcomes.

1. Macro-Fiscal Snapshot

Total expenditure is projected to exceed revenue by approximately NPR 657 billion. The government plans to finance this through NPR 247 billion in foreign borrowing and NPR 410 billion in domestic borrowing, placing the fiscal deficit at roughly 5 to 6 percent of GDP. While elevated, this is not unusual for a developing economy pursuing large-scale infrastructure investment.

The financing plan depends heavily on three assumptions holding simultaneously: revenue growing at over 20 percent, foreign loan disbursements proceeding on schedule, and domestic capital markets absorbing NPR 410 billion without crowding out private credit. Each carries meaningful risk.

2. Expenditure Structure

Recurrent expenditure dominates at NPR 1,271 billion, or roughly 60 percent of the total budget. Capital expenditure stands at NPR 431 billion, just over 20 percent, with the remainder covering debt servicing and financial management.

The 21 percent effective increase in civil servant take-home pay, combining a 10 percent salary hike and a 10 percent monthly incentive allowance, adds approximately NPR 25 to 30 billion in permanent recurrent obligations. Pension liabilities alone stand at NPR 970 billion, and social security programs receive NPR 122 billion. Loan repayments account for roughly 22 percent of the budget, salaries 14 percent, and pensions 5 percent. Together these commitments structurally crowd out productive development spending in a pattern that has persisted for several years.

The salary increase is defensible; real wages have eroded substantially through inflation, but the policy question it raises is whether higher compensation will improve public service delivery. Without output-based performance frameworks linked to delivery outcomes, the expenditure increase may not translate into better state capacity.

3. Revenue Outlook and Tax Reforms

The government targets NPR 1,580 billion in total revenue, implying growth of approximately 22 percent over the revised FY 2082/83 estimate. Tax revenue alone is targeted at NPR 1,403 billion, requiring roughly 20 percent growth.

The budget simultaneously introduces meaningful tax relief: the personal income tax exemption is doubled to NPR 1 million, the top income tax rate is cut by 10 percentage points, excise duties are removed from 360 product categories, customs duties are reduced on 273 raw materials, a 10 percent VAT refund is introduced for digital payments, and IT service exports receive a 50 percent income tax exemption. These are substantive changes, not cosmetic adjustments.

The structural tension is plain: the government expects strong revenue growth while cutting multiple rates, betting that broader economic activity, greater formalization, and improved compliance will compensate. Over the past five years, Nepal's annual revenue shortfall has averaged at least 25 percent below target. Tax exemptions alone are estimated to cost approximately NPR 200 billion annually, and a high-level Ministry of Finance committee has identified Nepal's tax administration as complex and weakly enforced. Revenue in the opening months of FY 2025/26 had already fallen 5.3 percent against comparable figures, suggesting structural weaknesses that predate this budget.

If collections miss by 15 percent, it is capital expenditure, not salaries or pensions, that gets cut first. This structural prioritization is the central fiscal risk.

Two specific revenue measures generated significant public controversy. A proposed 5 percent VAT on electricity consumption above certain thresholds drew strong criticism, including from former NEA head Kulman Ghising, on the grounds that it contradicts Nepal's electrification and energy transition goals. The Ministry of Finance subsequently signaled openness to revising the measure. Separately, a 3 percent education equity fee on private school turnover and tax measures on private health institutions drew protests from school associations and medical groups, who argue costs will be passed directly to households, effectively taxing middle-class families seeking access to quality services. The government's counter-argument is that large private institutions benefiting from public infrastructure and regulatory frameworks should contribute to the systems they depend on.

4. Sectoral Priorities

Energy

The energy sector receives NPR 855 billion, the largest single development allocation. The government targets adding 1,040 MW of new capacity, 670 MW from hydropower and 370 MW from solar, bringing total installed capacity to 5,535 MW. The proposed restructuring of Nepal Electricity Authority into separate generation, transmission, and distribution entities is a long-overdue reform, and private sector participation in international electricity trading is being opened.

The momentum behind this ambition is real. Nepal's installed capacity reached approximately 3,157 MW by 2023 and the country became a net electricity exporter for the first time in 2024, earning over NPR 17 billion from exports. However, the 15th Periodic Plan set a hydropower target of 5.82 GW and reached only around 3.5 GW by the end of its five-year period. Adding 1,040 MW within a single fiscal year would require multiple large projects to reach commissioning simultaneously, an ambition without recent precedent. Seasonal variability adds further pressure: during the 2024/25 dry season, NEA reported power output fell 20 percent below the winter average due to weak snowfall and reduced river flow. Storage capacity and transmission investment will need to keep pace with any generation additions.

Infrastructure

Capital expenditure rises from NPR 251 billion in the revised FY 2082/83 budget to NPR 431 billion, a 72 percent nominal increase. Priority road projects include the East-West Highway expansion, Kathmandu-Terai-Madhesh Expressway, and Nagdhunga Tunnel. The Sunakoshi-Marin Diversion Project, targeting irrigation for 122,000 hectares across five Madhesh districts, stands out for agricultural impact.

The challenge is absorption, not allocation. Nepal has historically spent only 50 to 75 percent of its development budget, with procurement delays, land acquisition bottlenecks, weak project preparation, and contractor performance consistently limiting outcomes. Evidence over the past decade suggests capital spending has roughly matched inflation-adjusted pre-federal benchmarks rather than growing in real terms, indicating structural rather than merely cyclical barriers. Federalism has not improved capital expenditure effectiveness as widely anticipated.

Education

Education receives NPR 218 billion, roughly 10.3 percent of total spending. Focus areas include school governance reform, digital and AI learning readiness, and expansion of technical, vocational, medical, and engineering seats to address labor market shortages and reduce outward migration.

The budget increases the R&D allocation to approximately 1 percent of total spending, representing a roughly threefold increase from recent years. For universities, research institutions, and agriculture and health researchers, this creates genuine opportunity, particularly if channeled through competitive, merit-based grant mechanisms. The implementation risk is real: Nepal has a history of R&D allocations remaining unspent due to weak institutional absorption. Without dedicated research management infrastructure and transparent disbursement systems, the increased risks remain on paper.

Health

The health sector receives NPR 101 billion, with NPR 15 billion specifically allocated to expanding health insurance coverage to 90 percent of the population within three years. This is an urgent priority: out-of-pocket health expenditure currently stands at 54.2 percent of total health spending, with 10 percent of the population facing catastrophic health costs, driven by fragmented risk pooling, multiple overlapping schemes, and low financing efficiency. Free cancer treatment for children in government hospitals and the establishment of a Food and Drug Administration are additional commitments.

Agriculture

Agriculture receives NPR 47 billion. Farmers investing up to NPR 20 million in agriculture and livestock enterprises can access capital subsidies of up to 40 percent. Crop insurance premiums will be subsidized by up to 80 percent, and fertilizer allocations have been increased.

Social Protection

The nutrition allowance for Dalit children has been doubled to NPR 1,000 per month, with NPR 3 billion allocated. The program reaches households through local governments via direct bank transfers and research has found it increases birth registration rates and reduces child labor among recipients and their siblings. The budget also introduces a voluntary campaign encouraging financially secure citizens to forgo social security benefits, a creative but uncertain mechanism for managing fiscal pressure.

5. Innovative Financing and New Institutions

To diversify financing beyond traditional bilateral and multilateral borrowing, the budget introduces several instruments. The Matribhumi Kosh (Sovereign Wealth Fund) would deploy a portion of foreign exchange reserves into strategic investments, including the AI Compute Centre and a minimum three-month fuel stockpile. Alongside diaspora bonds, clean energy bonds, offshore bond issuance, and a National Asset Management Company, this represents genuine effort to mobilize capital from new sources. Each instrument requires strong legal frameworks, market confidence, and institutional capacity to succeed.

Nepal's first sovereign AI compute facility, planned for Syuchatar in Kathmandu, represents a deliberate attempt to leverage Nepal's clean hydropower resources to develop high-value computing services. The National AI Policy 2081 provides a strategic framework for AI development and governance. The facility's success will depend on attracting investment and talent, and on building domestic capacity rather than simply becoming a market for foreign AI products while engineers continue to emigrate.

6. Debt Position

Public debt is projected at roughly 40 to 43 percent of GDP, within internationally accepted thresholds. The IMF's most recent Debt Sustainability Analysis confirms low risk of external or overall debt distress, but notes sustained fiscal consolidation is necessary to maintain that status. Total interest payments exceed NPR 99,795 billion, equivalent to approximately 63 percent of total tax revenue. A Nepal Rastra Bank working paper identifies twin fiscal and current account deficits as a medium-term vulnerability, and the World Bank and IMF joint Debt Sustainability Analysis flags low export levels as a structural risk. The trend warrants close monitoring even if current levels are manageable.

7. Institutional Reform Agenda

The government proposes abolishing 31 agencies, merging 6, transferring 6, and restructuring 18. Whether this produces genuine efficiency or reorganized bureaucracy depends entirely on implementation. Nepal's budget speeches have consistently announced wide-ranging reform agendas that are only partially implemented within the fiscal year, with institutional resistance and political instability the most commonly cited barriers. The simultaneous establishment of the AI Centre, Sovereign Wealth Fund, National Asset Management Company, NEA restructuring, Nepal Airlines reform, and capital market modernization, including intraday trading, derivatives, and short selling, risks spreading implementation capacity too thin. Phasing high-impact reforms over 12 to 18 months would likely produce better outcomes than attempting all changes within one fiscal year.

8. Intergovernmental Coordination

Over NPR 600 billion flows to provincial and local governments under fiscal federalism arrangements. The World Bank's 2024 Nepal Fiscal Federalism Update found that institutional reforms have progressed at only a moderate pace and that FY 2023 saw the first fiscal deficit at the subnational level since federalism began in 2017. The share of conditional grants in total transfers to local governments has grown from 53.74 percent in 2018/19 to 66.77 percent in 2023/24, reducing sub-national fiscal autonomy and concentrating spending decisions federally. Many budget outcomes, particularly in infrastructure and social services, depend on effective collaboration across federal ministries, provincial governments, and local governments. The evidence suggests the institutional arrangements are not yet fit for the scale of coordination required.

9. Critical Assessment

The policy direction is largely correct. Reducing the tax burden on individuals and businesses, investing heavily in energy and infrastructure, opening the electricity trading market, doubling child nutrition support, expanding health coverage, and beginning to modernize public institutions are all the right priorities. The introduction of new financing instruments signals creative thinking about capital mobilization.

The core weakness is the distance between what is announced and what Nepal has historically been able to deliver. The budget is simultaneously ambitious on revenue growth, capital spending, energy capacity additions, institutional reform, and new financial architecture. Evidence from recent years consistently shows that ambition spread this widely produces uneven results.

The most important single test will be capital expenditure absorption. Pushing spending above 70 percent of the development budget, sustained across all three quarters, not front-loaded in the fourth, would make many other targets more achievable. Achieving that will require dedicated project management units, realistic milestones, faster procurement systems, resolved land acquisition processes, and an honest monitoring system that flags slippage early rather than at year-end.

If implementation capacity improves substantially, this budget could mark a genuine turning point in Nepal's economic trajectory. If procurement delays, land acquisition bottlenecks, revenue shortfalls, and coordination failures reassert themselves as they have in most recent years, the gap between the budget speech and actual outcomes will again be significant.

10. Priority Recommendations

Protect capital spending when revenue disappoints. Establish a clear rule that recurrent expenditure adjustments take priority over development budget cuts in a constrained revenue scenario.

Phase the reform agenda. Identify five to seven highest-impact institutional reforms for FY 2083/84 and sequence others across the following 12 to 18 months. Attempting everything simultaneously overwhelms administrative capacity.

Strengthen project implementation systems. Dedicated project management units, improved procurement timelines, and faster land acquisition processes are preconditions for absorbing the NPR 431 billion capital allocation.

Pilot new institutions before scaling. The AI Compute Centre, Sovereign Wealth Fund, and National Asset Management Company should begin with defined pilot phases with clear performance benchmarks before national rollout.

Build monitoring around outcomes, not just expenditure. Move beyond tracking budget released and budget spent toward measuring roads completed, electricity consumed, firms registered, jobs created, and exports generated. Quarterly reviews tied to CGAS and FMIS data systems should drive accountability.

Address intergovernmental coordination structurally. Clear performance indicators and reporting mechanisms for provincial and local government programs are necessary to ensure the NPR 600 billion flowing downward translates into development outcomes rather than sitting in local government accounts.

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