AN ANALYSIS OF THE TRENDS OF BUDGETARY COMPONENTS OF THE GOVERNMENT BUDGET IN NEPAL AFTER RESTORATION OF DEMOCRACY (1990/91-2010/11)

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LETTER OF RECOMMENDATION

This is to certify that Mr. Damodar Bhandari has prepared this thesis entitled "An Analysis of the Trends of Budgetary Components of the Government Budget in Nepal after Restoration of Democracy (1990/91-2010/11)" for the partial fulfillment of Master's Degree in Arts under my supervision.

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APPROVAL LETTER

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ABSTRACT

Budgetary Reflection of the economy presents a gloomy fiscal scenario-low capital expenditure, high recurrent expenditure, low revenue collection and high fiscal deficit with high foreign loan inflows. The output of the economy has thus achieved average very low economic growth rates over the decades. With this background, Present Study finds: the growth rate of recurrent expenditure is 15.33 percent slightly higher than the growth rate of capital expenditure which is only 14.83 percent; collection of tax revenue has the growth rate is 18.72 percent slightly higher than the growth rate of the collection of non tax revenue which is only 14.13 percent; the growth rate of overall budgetary deficit is 11.40 percent; public debt has the growth rate is of 9.36 percent annually where the share of external debt on an average has been 62.30 percent over the decades which is very high causing debt servicing problem. Therefore, it is necessary to pay special attention towards raising the level of capital expenditure in the purposed budget by curbing unproductive recurrent expenditure, raising the level of productive foreign grants, financing the budget deficit through the creation of the alternative sources rather than foreign loan, enhancing the revenue mobilization through full automation of tax administration, proper mobilization of the domestic resources and ensuring the macroeconomic stability in the economy of the country.

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LIST OF ACRONYMS

ADB : Asian Development Bank
ADU : Asian Development Outlook
CBO : Congressional Budget Office
CBS : Central Bureau of Statistics
CEDA : Centre for Economic Development and Administration
CPA : Comprehensive Peace Agreement
Ed. : Edition
En. : Encyclopedia
ESAF : Enhanced Structural Adjustment Facility
FCGO : Finantial Controller General Office

FY	: Fiscal Year
GDP	: Gross Domestic Product
GON	: Government of Nepal
IAP	: Immediate Action Plan
IMF	: International Monetory Fund
MOF	: Ministry of Finance
MTEF	: Medium Term Expenditure Framework
NC	: Nepali Congress
NDC	: National Development Council
NPC	: National Planning Commission
NRB	: Nepal Rastra Bank
OMB	: Office of The Management and The Budget
PPBS	: Program and Performance Budgeting System
Rs.	: Rupees
SAP	: Structural Adjustment Programme
TYIP	: Three Year Interim Plan
VAT	: Value Added Tax
WB	: World Bank
$	: Doller
¥	: Yen

CHAPTER I

INTRODUCTION

1.1 General Background

Governments in a democratic society have developed budget system to facilitate an annual decision making on the finantial instruments like the government expenditure, revenue, deficit financing and the debt of the government. The budget which also regards the HOROSCOPE of the country's economy is a finantial document that onced approved by the legislature-parliament authorizes the government to raise the revenues, incur debt and effect expenditure in order to achieve national goals. Thus, the budget is known as the DEMOCRATIC EXERCISE of the government. Moreover, it is the main instrument of the economic policy, incorporates policies, programs and activities related to the government expenditure, revenue and the other sources of financing. In other words, the physical policy is translated into practice through the budget. Therefore, the budgetary policy of the government occupies an important place in the overall economic policy of the government.

The origin of the budget is said to have from the French word 'Bougett' which refers a small leather bag or pouch. It was first used in England to describe the white leather bag, which held the seal of Medieval Court of Exchequer. Later known budget containd proposal of financial plan of the government expenditure. But word budget has now been used in all countries and in may languages. The term budget is now commonly understood as a government document. In fact, it is a proposal of proposed expenditure for a given period of time and purposed means of financing them for the approval of legislature (Lekhi, 2008).

Nepal is a least developed and centralized governing system. Thus, the presentation of budget to the legislature-parliament appears to be unified one. The presentation of the budget to the parliament is mandatory by law. According to the Interim Constitution of Nepal : 2007 (Article 93, claue 1 and section 9) for each finantial year, the Finance Minister must present the estimation of budget to the legislature-parliament for its approval (GON, 2007). Thus the formulation, presentation and the implementation of the budget is constrained by the constitution and the Finantial Acts in Nepal.

In general, the background of budget in Nepal defines as "the government annual plan and programs to accomplish national goals and objectives defined by periodic plan that consists: projection of next fiscal revenue collection, projection of next fiscal year government expenditure and actual progress report up to the tenth month of current fiscal year on revenue collection and expenditure" (Acharya Adhikari, 2009).

Budgeting in Nepal is of recent origin. Realising the need of budgeting in Nepal the then Finance Minister Subarna Shamsher in 1952 presented the first annual national budget in the form of an annual plan with the estimation of expenditure of Rs. 52.5 million. The revenue estimation was amount of Rs. 30.5 million (Panta, 2012). According to Interim Government Act 1952, it was mandatory to prepare Income and Expenditure Estimate for coming year and take assent from the king. Budget was made public only after obtaining the assent from the king. However the budget presented by the Subarna Shamsher of the first elected government in 1958/59 of Nepal considered as the first scientific budget of Nepal. After that at the end of each fiscal year government presents the plans, pgograms and strategies through budget for the coming year. In Nepal, the fiscal year starts from the 15th July to the 14th July of the next fiscal year. And the 14th July is commonly known as the budget speech day in Nepal.

Budget correlated to planning. Planning involves the combination of many aspect of programmes. The pattern and structure of budget differs from country to country In France, the budget is presented twice a year. So it could be said that the mode of the budget differs from the policy dimensions of a country. Therefore, the budget depends upon the political nature of a country.

The exercises of the government budgets before 1990/91 remained under the executive control of the king as the kings were the chairman of the National Development Council (NDC). People's participation during budget formulation and implementation was almost nil. Parliament usually remained accountable for the kings upto the 7th periodic plan (1986/87-1991/92). Most of the government budgets were centrally planned with unclear development objectives. The main features of such budgets were unstable one-sided development, centrally guided and the lack of people's needs. As a result, there was a high poverty almost 50% (budget speech, 1990/91), high regional disparity and most of the development activities concentrated in the district head quarters only.

Budgetary experiences after the Restoration of Multiparty Democracy in 1990/91 within the framework of Constitutional Monarchy based heavily on the adoption of the vigorous policy of liberalization, globalizations and the privatization of the economy. Budgetary programs policies and the priorities of the GON budgets presented by the various short lived governments have also undergone changes to that directions since the very first budget 1991/92 of Rs. 26.7 billion (budget speech, 1991/92) presented by the majority government of the Nepali Congress (NC). This was the first budget in the direction towards the liberalization of the Nepalese economy in true sense. It gave a new vision to encourage participation of the private sectors in the productive areas.

Besides, many reforms measures were introduced and initiated in the budgeting sector after 1990/91 inorder to respond the growing demands of the Nepalese peoples. NDC was chaired by prime ministers (NDC-council of various different stakeholders from all the regions class and communities). Parliament was accountable for the people. All the GON budgets prioritized the people's participation on the development activities and the governmental plans. Most of the budgets were more consistent with people's aspirations and local needs. Major thrusts of the GON budget were sustainable overall development, lessened regional disparity and the poverty reduction. Moreover, Budgetary policies and programs during and after Ninties were essentially concerned with agriculture modernization, employment promotion, women empowerment, finantial sector reform, government expenditure management, tax reform, good governance, social service development of basic and physical infrastructure and the decentralization.

During the first half of the 1990s Nepal went through a period of fiscal consolidation as an integral part of an economic liberalization and reform program. Neverthless the expansionary fiscal policy adopted by a succession of short lived government during the latter half of the 1990s resulted in an increase in deficit financing, debt stock and debt-servicing obligation (Adhikari, 1990). It is because of this study focuses the trend of the budgetary components viz government expenditure, revenue, deficit financing and the debt of the government budget after the Restoration of Multiparty Democracy in 1990/91.

1.2 Statement of the Problem

The trend of the budgetary components (Expenditure, revenue, deficit financing and the debt of the government) of the GON budgets has been undergone changes significantly after the political revolution of 190/91. In order to address the growing challenges encountered in relation to the rising expectations of the people have promoted the governments to become serious as to the means and the use of the scarce resources in a more organized and effective manner. Governments of Nepal during and after Ninties has been responding to these expectations in various ways including the strengthening programs, budgetary practices, delineation of the budget, classification of the budget into income and expenditure heads to make it is more comprehensive and informative, clear enunciation of the objectives persuaded by the particular budget, its linkage with national development objectives and compatibility with the policy of liberalization.

Besides, several reform measures in the fiscal sector were introduced and initiated: on both the revenue and the expenditure side of the government budgets. The governments tried to make consistency of periodic plan and annual budget formulation to improve the linkage between then. For this purpose, Enhanced Structural Adjustment Facility (ESAF) : 1992, Medium Term Expenditure Framework (MTEF) : 2002, Immediate Action Plan (IAP) : 2003, classification of the budget : 2004, applying both Top down and Bottom Up Approach for the formulation of the budget and three year Interim plan (TYIP) : 2007/8-2009-10) were mainly carried out to strengthen the efficiency of both the government expenditure and the revenue regarding the rising concept of the welfare nation.

However, budgeting in Nepal is always seem to be characterized by deficit in every fiscal year. The deficit arises when the expenditure outstrips the revenue. The reason behind the deficit budget in Nepal is that the government expenditure has been increasing tremendously due to day to day recurrent expenditures and the development activities. The growth of the government expenditure has been a phenomenal in Nepal as evident from the fact that every finance Minister ever since the beginning of the budgetary system in 1952 had presended the public expenditure program larger than that of the previous year. Thereafter the gap between the government expenditure and the revenue has continuously widen even in the Panchayat Governing System (1960/61-1990/91), Democratic Governing System (1990/91-2008/9) and also after declaring Nepal as a Fedral Democratic Republic in 2008/9. However the resource gap (Total Expenditure-Total revenue) started to be more widen right from the Restoration of the Multiparty Democracy in 1990/91.

Looking at the government budgetary operation of the FY 1990/91 the resource gap amount was Rs. 12905.50 million while it has increased to Rs. 18649.30 million for the FY 1995/96 and Rs. 3941.30 for the FY 2000/01, Rs. 76187.50 for the FY 2008/9 and that has increased to Rs. 95544.70 million for the FY 2010/11 under study (MOF, 2011).

Inorder to fulfill the resource gap, government of Nepal has been adopted the policy of deficit financing right from the introduction of the budgetary system in 1952. Moreover, it has been a sole tool for the governments after 1990/91. The government may cover deficit either by running down its accumulated cash balances and internal borrowing or by foreign loan and new tax proposals. In the budgetary structure of Nepal, though all the means are employed to cover the deficit virtually it is customary that the foreign loan has taken a prominent place to cover the deficit budget in Nepal. That is why Foreign disbursement has been increasing every fiscal year. The Foreign loan for the FY 1991/92 was Rs. 6.81 billion and has increased to Rs. 12.07 billion at the end of 2010/11 (MOF, 2012).

Infact, the development expenditure of Nepal is heavily dependent on foreign sources (both grants and loans). About 66% the development expenditure has been covered by the foreign sources almost in every finantial year. This is not a happy situation for Nepal which already increases the foreign debt liability and can create Aid Dependency Syndrome.

To sum up this study deals the following issues

- What reform measures were carried out in the budgetary structure after the restoration of democracy (1990/91) ?
- Why is the Nepalese budget mainly characterized by the deficit financing ?
- At what trend the budgetary components (government expenditure, revenue, deficit financing and the debt of the government) are directed since 1990/91 ?
- Why most portion of the development budget is financed from the foreign sources ?
- What are the main causes for the lack of proper mobilization of the domestic resources ?

1.3 Objectives of the Study

This study has focused the trends of Budgetary Components of the Government Budget in Nepal after the restoration of democracy in 1991. The general objectives of this study are

i. to analyse the trends of government revenue,

ii. to identify the trends of government expenditure,

iii. to explorer the trends of budgetary deficit and sources of financing,

iv. to findout the trends of government debt.

1.4 Significance of the Study

Nepal is a least developed country with per capita income les than $ 750 and very low GDP growth rate of 4.6 (MOF, 2012). Many other developed countries of the world including our neighbours have taken a quantum leap in the economic development by achieving double digit economic growth, our nation could not achieve the rate a desired owing mainly due to political instability has been the main cause of budgetary uncertainty since long.

Present demand of the Nepalese society is the rapid socio-economic development of the country. This is possible only through the development expenditure in the large scale. It is therefore, necessary on the part of the state to assume the responsibility of creating infrastructure needed for progress, stability and the growth of the economy. Importance of the government expenditure in economic development of country like Nepal lies in increasing growth rate, raising income and status of the people reducing inequalities of income and wealth, removing regional imbalance, promoting initiatives and maintaining macroeconomic stability.

As the government make decision to the national interest attention has to be focused on the process by which the public revenues are collected and the public expenditure are determined, allocated and controlled. It is customary that these processes are expressed interms of the budget components: expenditure, revenue, deficit financing and the debt of the government.

Thus, the study of the Trend of Budgetary Components in the developing country like Nepal has of great significance. Formulation of the future budget on the basis of past experiences is very important aspect of the government budget. Learning the lesson from the past experiences can be utilized in formulating the future course of the budgeting so that the better budgetary policies of the government can be carried out inorder to fit the budgetary expenditure, revenue, deficit financing and debt of the government at the desired level of the economy. Although there are some dissertations regarding Nepalese budget and GON finance, yet the critical assessment hasnot been made on the "Trends of Budgetary Components of the Government Budget in Nepal after the Restoration of Democracy". Therefore, this study makes an additional contribution to some extent for the assessment of the trends of the government expenditure, revenue, deficit financing and the debt of the government in Nepal since 1990/91.

1.5 Limitation of the Study

1. This study is based on the published secondary data and desk research. No attempts are made to examine the reliability of the available secondary data since the related authorities officially release them.
2. This study takes into account the facts and figures of the 21 years (1990/91-2010/11).

1.6 Organization of the Study

There are seven major chapters in the study; each chapter further divided into various subsections. The first chapter which is the introductory portion gives a general overview of the whole study and helps reader to know what and how of the study.

The second chapter presents the reviews done on different literatures. This chapter is divided into two units. The first unit presents the theoretical review and the second unit is based on the empirical review in the context of Budgetary Trend in Nepal.

The research methodology constitutes the third chapter, which provides information regarding the types and sources of data used in to study.

The fourth chapter deals the international trends in the government budgeting in which presents the budgetary trends of some advanced economies like USA, Japan and an emerging economy like India.

The Nepalese budgetary system has been analyzed in fifth chapter. It includes historical background, budget formulation process, budgetary reforms and polices and the sizes and objectives of the GON budget from 1990/91-2010/11.

The sixth chapter deals with empirical analysis to see the trend of revenue, expenditure and deficit budget and public debt and relationships among the variables under study.

Finally summary, conclusion and the recommendation of the study made. Recommendations made based on such study that might be helpful in preparing and implementing the budget of Nepal. References presented after the last chapter closes the study.

CHAPTER II

LITERATURE REVIEW

2.1 Introduction

In a developing country, the government has to play an important role in accelerating the rate of economic development. This role is embodied annually in its budget. Thus the government budget functions as the instrument for the direction of national resources into desired channels. In this regard G. Thimmaiah opines, "In a developing economy, budget has become the principle instrument of resources mobilizsation and allocation. It has also been used to facilitate measurement and appreciation of the impact of government activities on the national economy. In order to serve these various purposes, the government budget has to evolve according the needs of the country from time to time" (Thimmaiah, 1984).

But, unfortunately, the budgetary system in developing countries is suffering from many deficiencies which contract the scope and effectiveness of budget regarding the better allocation of resources. Pointing out the budgetary system in developing countries, "Many of the deficiencies of budgetary system of developing countries are explained by the fact that the budget is dominated by one function control and accountability of expenditure. A budget structured in this manner, however, provided little information about the government's objective and its programs and makes the evaluation of alternative expenditure activities particularly difficult" (Beyer, 1973).

The program analysis is the most ambitious and often optimistic component for restructuring the budget of developing countries. Though this analysis of budgeting is of vital importance in developing countries, it is very difficult task to fulfil the per-requisite basis for the successful implementation of such system of budgeting regarding the program budgeting in deeveloping countries Caiden and Wildavsky express their views, "In developing countries no one understand how to put together the program structure that relate the objective to one another. Consequently, many different things go under the name of program budgeting whatever a bureau is doing (Caiden and Wildavsdy, 1974).

Singh (1977) in the seminars paper, "Selected problems of Budgeting in Nepal" stress of the unvalueability to expected resources as a reason for the unsuccessful implementation of programmes and projects, and even for the uncertainly of whole Nepalese budget (Singh, 1977).

Concerning the mobilisation of internal resources the revenue is the most reliable source. It has been realized that on the revenue side taxation is the potential source of financing the public expenditure in developing countries like ours. Taxes, in general, have two major objectives in developing countries i.e. generating revenue for meeting government expenditures and creating incentives, for socio-economic development for accelerating the pace of economic development. Regarding the role of taxation in developing countries like ours, M.K. Dahal puts the things in sound manners, "In any country like ours where there are no discovered mineral resources, no coastal routes for the expansion and diversification of international trade, in signification industrial development and where the agriculture sector is largely at subsistence level, taxation has a critical role to play in acceleration the pace of economic development (Dahal, 1985).

But it is unfortunate that in developing countries revenue are in many cases being far exceeded by the development expenditure and some cases such amount of resources are being eroded by massive tax vision due to poor administration, Nepal is not exception of these fact.

2.2 Theoretical Review

There is no controversy among the economists that the budget is an indispensable tool in the hand of government which occupies a leading place among the special tools employed to direct and control the economic affairs of a nation. The budget has played an important role in the economic history of all countries. Government budgeting is assumed one of the major process by which the use of public resources is planned and controlled.

The word 'budget' derived from the word 'bouget' meaning bag of wallet. It was first used in England In which the King's treasurer of finance minister carried the documents explaining the country's needs and resources when he went to parliament. Gradually the meaning of the word 'budget' shifted from the bag itself to the documents which the bag contained, i.e., to the financial estimates and supporting statement of accounts (Moak and Gordan, 1963).

The budget has been defined by different writers in various ways. Some of the writers are in the view that budget is a statement forecasting revenue and expenditure during a certain period of time. But the early literature of budgeting did not limit the function of budget in forecasting revenues and expenditure but subsequently enveloped an ideas about it and treated basically as a plan directed to finance government expenditure. Since a budget is a programme of work, a good budget most fulfill the concessions, first, the programme should be a clearly checked out programme, ready for execution on approval. Secondly, there should be a clear indication as to how the required money will be available which the programme is not clearly checked out and the provisions are made in lumsum basis there may arises a number of barrier to adjust the details of the programme. Similarly, if a clear picture about the availability of money is not there, it means that provisions for expenditure are included just on the off chance that some money may be found or that some other expenditure may not materialise. Both these defects introduce uncertainly in the budget. A good budget avoids both these defects (Gupta, 1967).

2.2.2 Basic Theories on Budget

2.2.1.1 Balanced Budget Approach

According to classical economists, fiscal policy should have the minimum range of operations and the budget should be balanced annually. It was firmly stuck to the doctrine of Laissez-Faire and Say's Law of markets. As such, it was believed that when supply creates its own demand, general overproduction or involuntary unemployment is well-nigh impossible, According to Adam Smith, economic equilibrium and progress are attained through the inherent and self-oriented endogenous forces of the economic system. In the classical opinion, thus when full employment is supposed to reach automatically, productivity of government services in the economic field is nil.

When full employment, optimal allocation of resources and equitable distribution can be achieved automatically through the operation of free economic forces, fiscal operations have to be non-regulatory, non interfering nature. As such, the smallest budget was considered to be the best in the classical era. Further, the classicists condemned all budget deficits which necessited borrowing by the government, for that leading to inflation and even if that did not, it is caused reduction in the accumulation of private capital, thus inhibiting the rate of progress. The classicists firmly advocated a balance budget, in the sense the current annual revenue and expenses of the government must be equal. It, thus, does not provide the borrowings. The balanced budget principle was recognized as a principle of sound finance in orthodox economics.

Under the theory of sound finance, classicists favored a balanced budget criterion for the following reasons:

i. If the budget is unbalanced, the government has to borrow. The government's market borrowings cause reduction in loanable funds available to private productive employment and investment activities.

ii. Unbalanced budgets imply a wide extension of state functions beyond the capacity of the government, which may invite irresponsible government action.

iii. Unbalanced budgets may generate inflation on account of large and unproductive public expenditure.

iv. An unbalanced budget, on the other hand, cause economic uncertainty and promote instability.

v. A series of unbalanced budgets imply an increase in the burden of public debt.

Furthermore, when the public debt matures, the government will have to impose additional taxes to obtain resources for its repayment. Thus, additional taxation would again tend to have an adverse effect on the incentive to work. It would also cause the accentuation of income distribution. Moreover, government borrowings cause the rate of interesting money market to rise, as the demand for loanable funds rises. A rise of the rate of interest adversely affects investment activity in the private sector.

Thus, according to principles of sound finance, a budget must be balanced annually and the gap between revenue and expenditure should be minimum. That is, government should tax the least and spend the least, and it should not resort the borrowings as far as possible.

2.2.1.2 Unbalanced Budget Approach

Keynesian revolution in economic thinking reconstituted the whole basis of public finance and affirmed functional finance as a fiscal norm in modern times. Thought the lead in the development of "functional finance" concept was initiated by Keynes, credit goes to Prof. A.P. Lerner for coining the concept. Lerner puts that: "The principle of judging fiscal measures by the way they work or function in the economy, we may call functional finance." He contends that the fiscal operations of the government-taxing, borrowing, public spending, management of public debt, deficit financing etc-should be designed with the objective of fulfilling certain functions which have an immediate bearing and far reaching effects on the economic system as a whole. In economic philosophy, the term "functional finance" embraces public expenditure, public revenue and debt management which are regarded as fiscal instruments effectively used to achieve objectives like attainment and maintenance of full employment with economic stability.

The functional finance norm suggests the formation of large budgets with a wider functional coverage of government spending to promote basic economic goals like obtaining optimal allocation and efficient use of resources at full employment level and achieving economic stability and bring about an equitable distribution of income and wealth in the best possible manner.

Lerner suggests the following rules for government responsibility and activity under functional finance:

i. The government budget should be directed towards the achievement of full employment and price stability. For this purpose, the government budget need not necessarily balanced.

ii. The government should incur public debt by borrowing from the private sector only during inflation when it is essential to mop up the excessive purchasing power from the public, thereby reducing the pressure of excessive monetary demand.

iii. During depression only, public expenditure in excess of public revenue may be met by deficit financing i.e., printing additional currency notes.

The main tenet of functional finance is the formation of unbalanced budget from time to time for perfecting the counter-cycling goal of fiscal policy. A surplus budget is recommended during inflation and a deficit budget for recovery through excessive public spending during a deflation or depression.

Keynes was among the first to advocate that federal budget deficits are appropriate in the short run when the economy is operating below full employment. The view that the worldwide unemployment is due to the deficiency of aggregate demand. In fact, keynes provided an analytical framework of macroeconomic effects of fiscal deficit. He argued that deficit being the component of aggregate demand could help to rescue the economy from the morass of depression. The national income identity below will elucidate the impact of fiscal deficit on aggregate demand.

$$AD = C + I + G \text{..............................} (1)$$

Where, AD = Aggregate demand (Expenditure)

C = Private consumption expenditure

I = Private sector investment.

G = Government expenditure

In a closed economy, identity (1) can be used to explain the impact of fiscal deficit in aggregate demand. Other things remaining the same, an increase in fiscal deficit in the above equation will increase the aggregate demand.

In an open economy, the identity can be augmented as shown below:

$$AD = Y = C + I + X - M \text{....................} (2)$$

Where, X = Exports

M = Imports.

Identity (2) has net export item in the form of (X-M) on the right hand side. This shows an open economy, apart from private consumption expenditure, private investment expenditure and government expenditure i.e., net exports also effects aggregate demand.

2.2.1.3 The Monetarist Theory

Milton Friedman has expressed the monetarist view on the effectiveness of fiscal policy as the state of the budget itself has no significant effect on the course of nominal income, on deflation or on cyclical fluctuations." In reference to the Keynesian proposition that fiscal policy was effective. Friedman wrote: "The 'monetarists' rejected this proposition and maintained that fiscal policy by itself as largely ineffective, that what matters is what happens to the quantity of money." However, when Friedman discusses the independent effects of fiscal policy, that means the effects of changes in government budget holding constant the quantity of money (Friedman, 1970).

Monetarists believe that changes in the quantity of money are the dominant influence on changes in nominal income and, for the short run, on changes in real income as well. It follows that stability in the behavior of the money supply would go a long way toward producing stability in income growth. It can be listed out following four propositions of monetarist to characterize their position:

i. The supply of money is the dominant influence on nominal income.
ii. In the long run, the influence of money is primarily on the price level and other nominal magnitudes. In the long run, real variables, such as real output and employment, are determined by real, not monetary, factors.
iii. In the short run, the supply of money does influence real variables. Money is the dominant factor causing cyclical movements in output and employment.
iv. The private sector is inherently stable. Instability in the economy is primarily the result of government policies (Froyen, 2003).

Hence, it was argued against any kind of stabilization policy. This conclusion is based on at least three related considerations: inherent economic stability, inaccurate economic forecasting and policy implementation lags. As with the classical economists, monetarists believe that the economy is inherently stable. Flexible resource prices quickly move the economy to full employment; prolonged periods of unemployment are unlikely. In addition, monetarists believe that economic forecasting models cannot predict future economic contractions with enough accuracy to justify preemptive counter-cyclical policies. Finally, monetarists believe that counter-cyclical monetary and fiscal policies affect the economy with lags of 18 months or more. If contractions cannot be predicted in advance and stabilization policies have lag effects, counter cyclical policies may not be felt until after the economy naturally corrects itself. Counter-cyclical macroeconomic policies will become pro-cyclical and destabilize rather than stabilize rather than stabilize the economy.

2.2.2 Theoretical Aspect of Budget Structure

Budgetary structure, simply means the items of objects of budget, either these are in expenditure side or in the revenue side, which a budget incorporate within it to facilitate better understanding on various ways in which the public sector transactions can take place.

The modern government has to be in position to take decision which can be crucial for the stability of country's economy in the present and for its growth in the future. It was accepted new and wider range not only for the balance and growth of their economy but also for the social welfare of their people. These emerging phenomenons stresses lay emphasis on the structural reform of the budget that serves to asses at the needs arising from those new responsibilities for economic and social policy. (Gupta, 1967)

A budget structure of modern government involves essentially the design of suitable function and program format of the budget, but it also encompasses issues concerning the extent to which the budget reflects government and public sector activity. There are two concepts analyzing the budget structure of any country i.e. (i) divided budget; (ii) the coverage of the budget. (Beyer, 1973)

The divided budget is a feature common to the budgeting systems of all developing countries. Though the form and terminology of the budget's division may vary (regular, development, plan non-plan, revenue-capital, current capital and so on), the division of the budget into distinct components usually involves separate procedures for preparation, separate budget staff and occasionally separate sources of financing. (Beyer, 1973)

While the divided budget has few benefits in its favor, it does carry certain costs-probably the most important cost is the adverse effect on resources allocation arising from the problem of coordinating expenditure in separate budget (example, teachers salaries but no schools). The divided budget restricts program analysis by failing to identify full program costs and account for interrelationship between expenditure activities.

Concerning the second concept, the coverage of the budget can be extended in several ways. One is a formal extension that incorporates the activities directly into the budget itself. Another is to extend the coverage informally so that at minimum the decisions on the budget are made in to context of the larger set of public sector activities still another is to remove constraints on the use of revenue. Which applies mainly to the earmarking of the funds. (Beyer, 1973)

2.2.3 Classification of Budget

Budget classification is the structural key to conscious and rational government budgeting. The manner in which items of revenue and expenditure are grouped in the budget, will be determined by, and also determine, the character of the decisions that can be made in the budgetary process. The purpose of budget classification is to present the data in such a way that it gives information desired from different points of view. (Gupta, 1967)

2.2.3.1 Functional Classification

The term functional means a purpose such as defense, education, health etc. This classification is to supplement the type of functional classification which the budget in its original form carries. Further the functional classification covers only the expenditure and not the receipts. (Bhatia, 2006)

While presenting the budget before the legislature for approval the finance minister has to satisfy himself that the money is allotted in a manner which will help in the attainment of intentions of his government. This is the expenditure side of the budget. On the revenue side, he must see that the burden of taxation is distributed in accordance with the accepted principle of social justice. These aims of the budget can be realized if government expenditures are classified by the types of services provided. It is the functional classification of expenditure and accordingly expenditures are divided into: General services (defense, justice, police and general administrations); community services (roads and bridges, sanitation and others), Social services (education, health, social security and others) and Economic services (agriculture, fuel and power, industrial and mineral, transport and communication and others). And the Revenue can similarly be classified by Tax-revenue (income tax, commodity tax etc.) and Non-tax revenue (Charges, Fees, Fines etc.) (Singh, 1977).

2.2.3.5 Object Classification

This is most midely used form of classification for budget expenditure. It is a device to control expenditure and to limit the disruption of government officials. In the words of J. Burkhead, "the object classification was the direct product of an era when both legislature and citizenry at large were filled with distrust for administration. It was a great technical step forward in budgeting, since it permitted the Installation of government accounting system which could be linked with budget accounts and thus limit defalcations (Burkhead, 1956).

The objective classification lays strong emphasis on the accounting aspect of financial administration in government and helps in deesigning the pattem of accounts (Gupta, 1976). Its disadvantage is that is limited sharply the discretion of government officials responsible for implementing various programs (Pant, 1970).

2.2.3.6 Economic Classification

Economic Classification of budget accounts is designed to reflect the Government transactions with rest of the economy. This classification is designed in such a way that it can be linked with a system of national income and expenditure accounts depicting the activities associated with the generation of national income and capital formation. It, therefore, provides a breakdown of Government expenditure into consumption and capital formation, and the impact which the Government expenditure has upon the rest of the economy. Furthermore this classification also provides information concerning financial assets and liabilities and is very helpful in assessing the changes in the composition and ownership of financial assets as also the borrowing and lending transactions of the Government. An analysis of financial transactions also helps us in assessing the indirect contribution which the budgetary operations make to the capital formation by other agencies. (Bhatia, 2006)

This classification of the budget has six accounts or tables covering-Account 1 : Transactions in commodities and services and transfers : Current Account of Government Administration; Account 2: Transactions in commodities and services and transfers : Current account of Departmental Commercial Undertaking; Account 3 : Transactions in commodities and services and transfers : Capital Account of Government Administration and Departmental and Departmental Commercial Undertaking; Account 4: Changes in financial assets: Capital Account of Government Administration and Departmental Commercial Undertaking; Account 5 : Changes in financial liabilities: Capital Account of Government Administration and Departmental Commercial Undertaking and Account 6: Cash and Reconciliation account of Government Administration and Departmental Commercial Undertakings;

Economic classification of budget provides material for policy making. This type of classification supplies important information necessary for formulating the economic policy of the government, especially in regard to the promotion of economic development without sacrificing the stability. The main aim of this classification scheme is to provide the data required for examining the economic effect of government activity.

2.2.3.7 Program and Performance Classification

Program budgeting stresses the relationship between various outputs or program and the inputs necessary to produce them. The work of each department is classified into programs which are broken down into sub-categories. Programs include all work seeking to attain the same objective. This in turn facilitates use of PPBS and cost benefit analysis. (Due and Friedlander, 1977)

The resources at the disposal of the government are always scarce in comparison with the services which it would like to provide to the society. Accordingly, it must try to use the resources most economically and efficiently. To this end, therefore, choice of projects should be based upon cost-benefit analysis and the chosen programmes should be subjected to the tests of actual performance against their expected standards. A system of assessment is needed because actual performance seldom equals the expected one. By implication, a decision to spend a particular set of resources for a particular purpose (which may be called a project) should first comprise programming or a stage-wise sequence of steps for executing it; and secondly, it should comprise performance budgeting, that is, tests for assessing the actual performance. When budgeting covers both the above-mentioned aspects, it may be termed Performance and programme Budgeting System (PPBS) (Bhatia, 2006).

Taking an example, if agriculture is a function, production of fertilizers is a programme. In relation to this programme a project is the construction of the plant. Research and investigation is an achieving. The programme and its sub-division suchas projects and activities provide convenient operational units for budget formulation, management and programme analysis. This system is early related to the workload data, the use pattern of human and material resources and the financial outlay. When all these elements together with the operation are integrated they constitute the performance classification which enables the determination of the standards of economic efficiency in the implementation of public sector projects. A performance classification is an indispensable tool of programme budgeting.

It has been used the following diagram to distinguish between performance and programme budgeting. The use of the inputs of vector I results in activities as shown in vector II. Output of vector III is the consequence of these activities. Inputs-activities-output sequence is the subject of performance budgeting. Programm budgeting encompasses one more element, namely, the social state which represents the ultimate objective of the preceding sates.

2.2.4 Zero - Base Budgeting (ZBB)

As there is a manifold increase in the public expenditure in both underdeveloped and developed countries thus, the urgent need has been felt for augmenting the productivity of public expenditures. Therefore, most of the governments have switched over from the traditional expenditure budgeting to one or another form of rationalistic budgeting like programme budgeting, performance budgeting, planning-programming and zero base budgeting.

Zero based budgeting is the latest technique of budgeting as a managerial tool. This technique was first used in America in 1962. The former president of America, Jimmy carter used this technique when he was the Governor of Gorgia for controlling state expenditure.

As the name suggests, it is starting from a 'scratch'. The normal technique of budgeting is to use previous year's cost level as a base for preparing this year's budget. This method carries previous year's inefficiencies to the present year because we take last year as a guide and decide 'What is to be done this year when this much was the performance of the last year.' In zero based budgeting every year is taken as a new year and previous year is not taken as a base. The budget for this year will have to be justified according to present situation. This, zero is taken as a base and likely future activities are decided according to the present situations.

In zero based budgeting a manager is to justify why he wants to spend. The preference of spending on various activities will depend upon their justification and priority for spending will be drawn. It will have to be proved that an activity is essential and the amounts asked for are really reasonable taking into account the volume of activity.

2.2.7 Budgeting, Economic Policy and Planning

In the very beginning the budget was confined to two objectives, i.e., firstly, government had to determine how much money it needs take out of pockets of the tax payers in order to maintain its necessary activities and secondly, the legislative may know the Executive's plan of expenditure. But at present due to the increasing role of government towards or welfare state its responsibility has been wider. In such circumstances the budget has wide spread ramification through out the national economy, because the size of the budget to affect the rest of the economy has been greatly enhanced (Gupta, 1967).

In the modern governmental organization, the amounts of public expenditure revenues and public debt are so huge that they have begun to assume a major importance in the national economy. Added to the size of operations, the way these operation are conducted are very important form their effect on a nation's economy, the desired fiscal policy can be pursued by budgeting measures like taxation, expenditure and public borrowing etc. (Gupta, 1967).

Budgeting is a form of planning. Traditionally directed toward financial planning in a rather narrow sense, the budget process and the budget document increasingly have come to include other kinds of economic information and analysis as well. A comprehensive plan will attempt to cover the whole economy and to take account of the external economic environment. Partial plans omit some sectors or industries. Centralized planning is essential if the aim is a high degree of state direction of production and distribution. (Goode, 1984)

Planning has been adopted in some form by many developing countries, though plans differ greatly in coverage and detail. The appeal of planning is evident to many intellectuals it appears almost synonymous with rationality. Political leaders may regard a plan as a modern version of the promises of a better life that they and their predecessors have long been accustomed to holding out to the people.

In a developing country with a mixed economy, where formal operative planning takes place with respect to the public sector, the budgetary system plays a very important role in the implementation of public sector development programs. The planning and budgetary processes are essentially complementary each other but in actual practice, the relationship between them has often weak and tenuous.

Weaknesses lie on both processes and reinforce their support to each other. What is needed in the formulation and elaboration of plans is continuity, flexibility, consistency and a rational approach to project evaluation. The important considerations in improving the budgetary process are constructing the plan problems in the budgetary system, a proper organization and accounting of the available data and introduction of work measurement systems so as to evaluate performance and create cost consciousness.

Few developing countries, however have discarded planning altogether. The proper coordination of budgeting and planning remains important. Care needs to be exercised in translating the multiyear plan into the specific provisions of annual budgets. As Waterston has remarked, the nature of the link between the plan and the budget is a test of whether a government is serious about its plan and intends to carry it out. Problems often arise because of poor communication and cooperation between the planning and budgeting staffs. Planners usually are economists, and often they are intrigued by the techniques of input-output analysis model building. (Goode, 1984)

2.2.8 Components of the Budget

2.2.8.1 Government Expenditure

Public Expenditure refers to the expenses which a government incurs for (i) its own maintenance, (ii) the society and the economy, and (iii) helping other countries. In practice, however, with expanding State activities, it is becoming increasingly difficult to separate the portion of public expenditure meant for the maintenance of the government itself from the total. (Bhatia, 2006)

The government expenditure, in the traditional view, was regarded as a subtraction from and a substitute for private expenditures. Government outlay was deemed desirable, generally speaking, only in those circumstances where the private sector could not conduct the activity (Burkhead, 1956).

The concept of government expenditure plays a very prominent role in government finance. In the nineteenth century, the economist paid a very little attention to government expenditure as there were no sound classification of the expenditure by Central Government, State Government and Local Government. There were no principles for this government expenditure. Basically, the functions of government were restricted to justice, police and arms. They were also of the confirmed belief that government expenditures are totally wasteful and money can be best utilized by the private persons rather than government in the ancient times. With the passage of time, the situation has altogether changed and economic activities have become complex which has forced the economists to pay a great attention to government expenditure.

A part from resource mobilization the expenditure program of the government also forms an integral part of fiscal policy. As one expert rightly said." The government has to use its expenditure and revenue programs to produce desirable effects and avoid undesirable effects on the national income, Production and employment." Though the classical economists did not give much importance to vogernment expenditure. Keynesian economists has given a new trend to fiscal policy and increased the importance of government expenditure as a contra-cyclical method. (Pant, 1970)

It is assumed that the impact of government expenditure on national economy is not of a waste but of a waste of a preventive of national since 1930. And is also assumed the for full employment, reducing income inequalities and economic instability, government expenditure is powerful measure.

2.2.6.2 Government Revenue

A government needs income for the performance of a variety of functions and meeting its expenditure. Thus, the income of the government through all sources like taxes, borrowings, fees and donations ets. is called government revenue. This also known as government income.

Modern democratic government based to perform much more functions for the welfare of the state and these functions are not possible without the aid of money. So it involves substantial amount of government expenditure which can only be financed through government revenue (Lekhi, 2008).

Taxes and charges are with drawn from the private sector without leaving the government with a liability to the payee. Borrowing involves a withdrawal made in return for the government's promise to pay interest in the interim. Taxes are compulsory imposts, where as charges and borrowings involve voluntary transactions. Among these three sources, taxes provide much the larger part of the receipts. (Musgrave and Musgrave, 1989)

Revenue receipts are divided into tax-revenue and non-tax revenue. Tax revenue itself is divided into three sections: taxes on Income and Expenditure, taxes on Property and Capital transactions, taxes on Commodities and Services. Similarly non-tax revenue of Government is divided into three sections: currency, coinage and mint, Interest receipts, dividends, profits and other non-tax revenue. This is a normal practice with a government to divide its receipts into revenue and capital categories broadly speaking, revenue receipts include 'routine and earned ones.

2.2.6.2.1 Taxation

A tax is a compulsory levy payable by an economic unit to the government without any corresponding entitlement to receive a definite and direct quid pro quo from the government. The benefits received by taxpayers from the government are not related to or based upon their being taxpayers. A tax is a generalized exaction, which may be levied on one or more criteria upon individuals, groups of individuals, or other legal entities. (Bhatia, 2006)

In the tradition of classical and Neo-Classical economics, which dominated most of the thinking about public finance until the 1930s, taxation was viewed as a means of obtaining revenue for government, as a means of transferring resources from the private to the public sector. The more recent approach stresses that taxation does not serve solely to channel funds to finance government outlay. Taxation is also instrumental in controlling the volume of expenditure in the private sector. (Burkhead, 1956)

The economic effects of taxation are manifold,. They include micro effects on the distribution of income and the efficiency of resource use as well as macro effects on the level of capacity output, employment, prices, and growth. All these effects interact. Thus, the distributional effects (or incidence) of particular budget measures depend on their effects on capacity output and employment just as the latter depend on concurrent changes in distribution. Nevertheless, each type of effect is of interest in itself and must be considered as such in policy formulation. One policy may be superior with regard to distributional results but inferior with regard to efficiency, growth or employment effects. Tradeoffs must then be made. Moreover, as a matter of exposition, not all aspects can be dealt with at once. (Musgrave and Musgrave, 1989)

Hence the taxation has the decisive and extensive role for controlling the volume of expenditure in the private sector and also for reducing the inequalities of income and wealth in the country along with the direction of resources in more desired channel to ensure rapid economic development. A good tax system therefore is one which is designed on the basis of an appropriate set of principles, such as equality and certainty. Mostly however objectives of taxation conflict with each other and a compromise is needed.

2.2.6.2.2 Government Debt (Borrowing)

The issue of government borrowing in developing countries has assumed great importance in view of the increasing magnitude of budgetary deficits. In the literature of government borrowing some economists have put forth some issues regarding burden of public debt. So, the underlying questing by whether government debt inflicts burden in the economy or , it is an essential factor to promote development activities.

The classical economists were against the government borrowing and favoured the minimum expenditure from the government side. However, they were not against all types of government debt. They liked to approve public debt only for productive proposes and believed that debt servicing did not necessitate additional taxation. The classical economists preferred self-liquidating project that generate required income to serve the incurred debt.

Household debt must be repaid sooner or later because conduct of the household is a finite affair. Public debt need not be repaid since the budget and the economy are a continuing undertaking. When a particular debt issue matures, it is paid off; but the necessary funds are obtained by issuing new obligations. The debt is "refunded." In short, refunding operations are a management problem and whether we can "repay" the debt is a misdirected question. The issue rather is how interest service will affect the economy and how outstanding debt enters into the liquidity structure of the economy. (Musgrave and Musgrave, 1989)

2.2.7 Deficit Financing

The term deficit refers to the excess of government expenditure over its revenue. Deficit financing refer to the financing of total budgetary deficit of government comprising of both revenue and capital budget. The excess of government revenue over its regular expenditure is known as revenue surplus which is used to finance the capital expenditure. The revenue surplus, however, may not be sufficient to cover the capital expenditure hence the overall budget may be in deficit. The deficit policies of government generally intend to step up the rate of capital formation in the country.

The term deficit financing has been used in different sense. In western countries, it has referred to "excess of expenditure by government, over revenue receipts even it is covered by receipts obtained through loans."

In case of Nepal, deficit financing is the technique to meet the gap between the total receipts and outgo of GON through loans by issuing treasury bills (for the purpose other than public borrowing) to NRB and the commercial banks. It thus takes place when the government spends more than it obtains through taxes and other sources of revenue and loans form the public. Hence, borrowing from or running down the cash balances are the several ways of financing the deficit of government.

Hence, the technique of deficit financing may differ for developed and developing. Deficit financing, in advanced countries, takes the form of additional credit creation through the banking system. In underdeveloped countries, where banking habits are not fully developed and where a majority of transactions is carried out through common money, deficit financing mainly takes the shape of borrowing from the central bank. The simple mechanism is that the government hands over its securities to the central bank, on the banking of which the central bank issues paper currencies by resorting to the printing press. The criterion of deficit financing thus lies in its expansionary effect on the total money supply in the country (Kulkarni, 1966:17).

2.3.7.1 Deficit Financing at Various Stages

The various objectives for which deficit financing is resorted to and its effects are different in different situations. Generally, it can be resorted to during a depression, during war and during the process of economic development. These three spheres of the application of deficit financing are briefly considered below:

2.2.7.1.1 Deficit Financing During Depression

When Monetary Policy alone proved inadequate to restore prosperity during period of depression, the need was felt other measures to promote recovery. Deficit spending by the government assumed importance, not only in promoting recovery after a major depression, but also in reducing the intensity of a business cycle.

Deficit financing has assumed three forms in this context-"Pump Priming", "Cyclical Deficit Spending", and "Secular Deficit Spending." Deficit financing of any of these type is resorted to, because it is not possible to achieve economic stability through monetary policy alone.

Lord Keynes also looked upon public investment as an effective antidote to declining private investment during depression. At the time of depression where the threat of slump is present in the economy, such temporary bottleneck may be overcome through Keynesian prescription of excessive spending even through money creation. It is advocated as an instrument of surplus, idle and unutilized resources in the economy of a country. The purpose is to offset the deficiency of aggregate effective demand against the background of unutilized capacity and unemployed labor.

2.2.7.1.2 Deficit Financing During War

During a period of war, the financial needs of a government increase enormously, as it must gain control over large quantities of goods and services for war purposes. With a view to meeting increasing levels of expenditure, the government tries to raise as much resources as possible through taxation, fees, borrowing etc. But it is very difficult to balance the budget in such a period of ever-mounting expenditure. Deficit financing is then the only possible way to bridge the gap between government receipts and disbursements. The problems created by the policy of deficit financing during the war period are entirely different from those arising in a period of depression and also during the process of economic development., Since during the war period, emphasis is on the compulsory diversion of resources from consumption goods to war goods, a certain measure of inflation or forced saving is involved in this process. In the initial stages of war, rising government demand will rapidly result in bringing into use the unemployed resources in the economy and a domestic reduction of the supply of resources needed for private investment., However, after the stage of full employment of such resources is reached, further efforts of government to secure additional resources through deficit financing will only increase the total money supply and growth of money incomes and consequently causing a rise in the price level. The government has, therefore, to face the additional problem of keeping inflationary pressure under check.

Thus under the two conditions mentioned above, viz, during depression and during war, although the same method of deficit financing is resorted to, the objectives and results are essentially different. In the former case, the budget is deliberately unbalanced for increasing the tempo of an economy that is stagnant; while, in the latter case, deficit budget is unavoidable as government is helpless in the precarious situation of war. Again, deficit financing promotes in the private sector are encouraged whereas it is controlled in a war period in order check inflationary pressure.

2.2.7.1.3 Deficit Financing During the Process of Economic Development

The problem of maintaining development in rich countries is important but it is the problem of accelerating development in underdeveloped countries that is more important and urgent. Although there are several diversities among the different underdeveloped countries, we find certain general economic characteristics that are common to all. An underdeveloped country has, in essence, six basic economic characteristics: it is primary producing; it is burdened with population pressures; it has underdeveloped natural resources: it has an economically backward population; it is capital deficient; and it is foreign trade oriented. These characteristics are found in different degrees in different countries and there are great differences in the rate of growth both of total real income and of income per head. Certain market imperfections have acted as frictions and impediments in the way of economic progress, preventing the achievement of an optimum allocation of resources. The "vicious circle of poverty" assumes the most important impediment in these economies. It implies that due to low levels of income and high propensity to consume, aggregate savings in the economy are low. Investment through such voluntary savings being inadequate as compared to national requirements, the level of problems of development. These countries have the paucity of financial resources for development programme. Taxation, in these countries, has a very narrow base, because of the universal poverty of the people. Public borrowings, as a source of finance, have a limited scope because of low incomes and high marginal propensity to consume of the people.

The low saving capacity of the public sets limit to the amount that could be raised through public borrowings. The measure of deficit financing is, therefore, resorted to raise additional financial resources.

The process of economic advancement, facilitated by the use of deficit financing is however, not a smooth one. The deficit financing through newly created money is spent for the creation of capital goods, but capital formation is a time consuming process. During the period of capital formation, purchasing power in the hands of the people increases, but the supply of consumer goods does not expand correspondingly. Hence, prices of these goods tend to rise, and if this trend is unchecked, inflationary pressures may spread over to other sectors of the economy. If, therefore, certain counteracting measures are not undertaken, there is a great danger of the emergence of inflation, because of deficit financing (Raut, 2005).

2.3.7.2 Economic Impact of Budget Deficit

Increased money supply due to deficit financing may lead to different results depending upon the environment in which such a policy is pursued. For instance, if forces of latent inflation were present in the economy, as was the case in post-war years in many countries, deficit financing would tend to be more inflationary than under a normal situation. Activation of latent inflation assumes the form of monetization of the government debt and other financial assets held by the public by offering them to the banks. This causes an equivalent addition to the money supply. There may be either price inflation, or expansion of output and employment, or merely an increase in the amount of idle resources. These are, however, not mutually exclusive and their relative intensities may also vary under different conditions.

2.4 Empirical Review

Sharma (1988) has made a research about the Nepalese Budgetary Structure. His research clarifies that the pattern of government expenditure has followed more or less the uniform course throughout the reference period. It is observed that government expenditure and revenue both have increased in absolute and relative terms. Government expenditure has increased in greater trend than the revenue. This pace has not been enough to cope up with the development objectives and targets as preceded by periodic development plan. There is inadequate mobilization of domestic resources through government revenue. Thus, he points out a serious problem of widening resource gap existing since the inception of the budget history in Nepal.

Malla (1996) has made a research work on the topic "Study on Planning and Development Budget in Nepal." This study attempted to examine the allocation of development expenditure on the various sectors according to the order of priority, which is known as expenditure pattern. It is remarked that expenditure allocation for various sectors were very rough. Foreign assistance was the main source of development financing and deficit financing is in increasing order.

It is further clarified that budgeting and planning formulation and implementation is bounded by various inherent problems such as lack of the co-ordinations and co-operation between planning and budgeting agencies and sacrifice of the people, lack of the trained manpower in planning and budget sector, lack of the stable and honest administration, absence of higher mutual character and imbalance between agricultural and industrial sector.

Pathak (1999) has made a research work on the topic "A Study on Deficit Financing in Nepal." This study pointed out that, the main problem of the Nepalese economy is lack of proper domestic resource mobilization. Domestic resource can be mobilized properly, if there is progressive taxation and effective borrowing system. Commodity taxation in Nepal is very popular which is said to be a regressive type of tax as compared to the income tax. Similarly, the fact is that there is chance of tax evasion and corruption resulting from administrative inefficiency and tax law. Therefore, deficit financing has become a necessity to some extent.

Poudel (2002) has made a research entitled "A Study on budgetary Pattern of Nepal." This study covers the time span of twenty years. In this study the pattern of government expenditure shows a significance difference between receipts (revenue and grants) and expenditure. The gap between development expenditure and revenue surplus is widening due to the growth of government expenditure as compared to the growth rate revenue mobilization.

The study conducted by Poudel has suggested some recommendations to improve budgeting system in Nepal. Some of them are as:

a) Proper coordination between National Planning Commission and Ministry of Finance should be maintained.

b) Budget should be prepare depending upon economic prosperity.

c) Expenditure on unproductive sector should be reduced and

d) Transparency in earning and spending should be enhanced.

Khanal (2005) observes that government expenditure, revenue and their components are linearly related and it has forecasted the components of budget using the linear trend up to the year 2015/16. It is further observed that growth rate of recurrent expenditure is more than capital expenditure.

Pandey (2005) has made a thesis of : "An analysis of Budget Structure of Nepal 1990/91 to 2002/03" remarks "the pattern of government expenditure shows a significant difference between receipts (revenue and grants) and expenditure. Total receipt of government has covered 68.26% of the annual government expenditure in the review period. Government expenditure recorded 18.84% to GDP where as revenues was 11.13% to GDP in average. The percentage of regular expenditure to total expenditure is increasing whereas the percentage of development expenditure is declining.

Beyer (1973) had conducted a research on the topic "Budget Innovation in Developing Countries, The Experience of Nepal." This study pointed out that, the budgeting system of control and accountability rather than a concern for allocating limited public sector resources to well defined programs and projects that are intended to serve a set of national objectives. The conclusion that, there has been no formal earmarking of revenue in Nepal. The extension of the budget coverage has involved a combination of formal and informal incorporation of expenditure activities. Formal extension of the budget has involved only two relatively small expenditure activities. One is the incorporation into the budget of the lending operation of Nepal Government to its employees, which had traditionally been handled outside the budget. The other formal extension involved the incorporation of foreign assistance programs, which were previously outside the budget. In short, the traditional budgeting system is the antithesis of planning the allocation of scarce resources.

ADB (2005) revealed that the Nepalese economy remains well inside its production possibilities frontier, which makes further acceleration of the growth rate perfectly feasible. With 71% of its labor force in agriculture and underemployed, Nepal can hasten its transformation from an economy based primarily on agriculture to one based primarily on services and industry. If labor incentive services and industry grow and pull even a quarter of the rural labor force into more productive employment, the economy can be expected to grow much faster. Simultaneously, the accompanying reduction in the population pressure on farmland will help raise agriculture productivity and wage.

Adhikari (1990) had made the budgetary analysis reveals that Nepal Government spent regular expenditure as budgeted but development expenditure and revenue lagged behind the targets. This is a gloomy fiscal scenario-low development expenditure, high regular expenditure, low revenue collection and high fiscal deficit with high foreign loan inflows. So far, the donors have provided loan at concessional interest rates and with high gestation period. But, we can not expect the same situation to continue in the coming years in the changing world scenario where there is drying up of the flows of foreign aid and the donors are reluctant to provide concessional loans. Hence, managing national budget has become increasingly challenging for Nepal Government despite its sole objective of poverty alleviation.

WB (2010) found that many factors have contributed in varying degrees to the lack of effectiveness of public spending in Nepal. There is little doubt that institutional factors (including deficiencies in the planning, budgeting and expenditure monitoring process, as well as weaknesses in institutions, particularly the civil-service/administration) have played a key role in the over-problems. The eagerness of external donors to help has also encouraged over-programming and the lack of prioritization of the public expenditure program. The lacks of ownership of projects/programs at varius levels and the absence of accountability, have also undermined the quality and effectiveness of public spending.

As per recent Economic Survey carried out in 2010/11, it was pointed out that:

a) Revenue mobilization has not been to the extent of the size of the country's economy. Major challenges in the public finance is enhancement of revenue mobilization through : full automation of tax administration: carryout administrative reform for making the customs valuation system more objective, simplification of income tax procedures: expanding the scope of excise: and increasing efficiency of the overall tax system through removal of existing disorders.

b) Value Added Tax (VAT), despite bearing scientific, transparent broad scope and investment-friendly characteristic, its effective implementation has yet to be materialized. There is a suspicion of the practice of evading VAT by using fake bill/vouchers. Hence; it has become necessary to device appropriate mechanism for mitigation of the problem surfaced so far while institutionalizing the achievements made on revenue mobilization in the past.

c) The level of capital expenditure in the country is not to the extent as desired. Development projects, the precursor for raising the level of capital expenditure could not be executed for reasons such as: delay in submission of regular budget: absence of elected representatives in the local bodies accompanied by minimum presence of staff: persistent delays in awarding contract: and opposition of local people to development projects. Therefore, it is necessary to pay special attention towards raising the level of capital expenditure.

d) It has become imperative to give thrust to revenue mobilization form the perspective of negative impact of excessive dependence on foreign and for resource necessary for execution of development. Construction of the government projects could negatively affect the long-term economic composition and overall economic balance. Besides, worth consideration is that such dependency could cast potential risk to the health of development initiative, economic stability and strength of the economy. It is necessary to ensure optimum utilization of means through effective foreign grants: and improving the management of recurrent expenditure while bringing efficiency for expanding the capital expenditure.

e) Government Contribution to gross capital investment could not be increased on the one hand, while hampering regular development process in future owing to ever tipping balance between gross domestic saving and investment on the other beside adding complication in managing resources and servicing the foreign debt. Hence; paying special attention is necessary towards curbing the unproductive recurrent expenditure and enhancing productive utilization of development expenditure.

Government of Nepal

GON has just implemented the three years plan with an economic growth target of 5.5%, target for the agricultural sector being 3.9% per anum and 6.4% per anum for the non agricultural sector during the plan period. This plan puts onward an special emphasis on increasing public expenditure to assist relief and generate employment as well as on peace building, reconstruction, rehabilitation, reintegration, inclusion and revitalization of the economy. (Three years plan 2067/068-2069/070)

Conclusion

To tackle with the adverse and challenging issues regarding Nepalese budgeting system, further researches and studies in the field are relevant. Since the literature regarding the Nepalese Budget is scanty, the additional research work in this field is of great importance. Therefore this study entitled "An Analysis of the Trends of Budgetary Components of the Government Budget in Nepal." Makes an additional contribution to some extent for the critical assessment of the Trend of Budgetary Components in Nepal.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Research Design

This is an economic research which is descriptive and exploratory in design. The main concern of this study is to present the trends of budgetary components of the government budget and relationship between the variables used in the study.

The presentation of trend of expenditure and revenue pattern in Nepal gives a view of resource gap in budgetary system. Then attempt is made to present the sources and trend of budget deficit followed by trends and pattern of deficit financing in Nepal during the Period of review (1990/91 to 2010/11). The trends and patterns are presented using simple mathematical tools like average and percentage. To make the information easily understandable and visible, the data will be presented in graphs and figures.

3.2 Selection of Study Period

The period taken for the study is from FY 1990/91 to 2010/11. That is, the analish is basically for the period since the economic reforms started in the country. In 1990, democracy was restored on the country. The governments then formed centered their effort on increasing peoples welfare through the making of market-oriented economy. This period is supposed to be the appropriate one to analyze budgetary trend and structure in the country.

3.3 Sources of Data and Information

This research is mainly based on secondary data published by various Government organizations like CBS, GON, MOF, NRB, CEDA etc. They are: GON, Ministry of Finance (MOF): Various issues of Budget Speeches, Economic Surveys. National planning commission (NPC): Three year plan (067/68-069/70), Nepal Rastra Bank (NRB): various issues of Quarterly Economic Bulletin, Economic Report and Current Economic Situation of the Nation, Central Bureau of Statistics (CBS): Various issues of Statistical Yearbook and Statistical pocket book and Center for Economic Development and Administration (CEDA).

The available data is reclassified, regrouped and analyzed in order to make them useful in examing the objectives of the study. To make the information easily understandable and visible data is presented in graphs and figure.

3.4 Definition of the Research Terminologies

Total Expenditure (TE): Total Government Expenditure is the actual expenditure during the specified period. This is the sum of current expenditure principal Repayment Expenditure and capital Expenditure.

Current Expenditures (CE): Expenditures on current outlays on public consumption and revenue expenditure, which create no productive assets such as salaries of employees.

Principal Repayment Expenditure (PRE): Expenditure incurred by government on repayment of loan from domestic and foreign sources.

Capital Expenditure: Capital Expenditures are those expenditures which are appropriated and designed to add the productive capacity or the capital stock of the economy.

Foreign Aid (FA): Foreign aid is any type of capital inflow or other assistance given to a country which would not generally have been provided by natural market forces.

Internal Loan (IL): Internal loan of the government constitutes loan from the banking and non banking system for Deficit Financing. It includes treasury bills, development bonds, national saving bonds, public saving card, overdraft and others.

Foreign Loan (FL): Foreign Loan is the loan obtain from bilateral and multilateral sources to finance deficit financing which is to be repaid in future.

Overall Budget Deficit (OBD): It is the difference between total expenditure and total revenue of the government.

Budget Deficit (BD): The Budget deficit is defined as the excess of government expenditure over its revenue. Foreign grants are included in the revenue side of the budget.

CHAPTER IV

INTERNATIONAL EXPERINECE IN THE GOVERNMENT BUDETING

4.1 Fedral Budget of USA

The Fedral Government of U.S.A. has used the unified or consolidated budget concept as the foundation for its budgetary analysis and presentation since the 1969 budget. The Budget of the United States Government often begins as the president's proposal to the U.S. Congress which recommends funding levels for the next fiscal year, beginning October 1. However Con.gress is the body required by law to pass a budget annually and to submit the budget passed by houses to the president for signature. Congressional decisions are governed by rules and legislation regarding the Fedral Budget process. Budget committees set spending limits for the house and senate committees and for Appropriations subcommittees, which then prove individual appropriations bills to allocate funding to various fedral programs.

The U.S. constitution (Article I, section 9, claues 7) states that "No money shall be drawn from the Treasury, but in consequence of Appropriations made by law and a regular statement and Account of Receipts and Expenditures of all public money shall be published from time to time". Each year, the president of the United States submits the budget request to Congress for the following fiscal year a required by the Budget and Accounting Act of 1921. Current law requires the president to submit a budget no earlier than the first Monday in February. Typically, presidents, submits budget on the first Monday in February.

The President's budget also contains revenue and spending projections for the current fiscal year, the coming fiscal years, as well as several futures fiscal years. In recent years, the president's budget contained projections five years in to the future. The Congressional Budget Office (CBO) issues a "Budget and Economic Outlook" each January and an analysis of the president budget each march. CBO also issues an updated budget and Economic Outlook in August. (en.wikipedia.org)

4.1.1 Revenue Trend of US Government

Government revenue in the United States steadily increased from $1.3 trillion in the mid 1980s to $3.7 trillion in 2000. But its steady increase was impacted in the recession of 2000-01 and the Great Recession of 2008-09.

Government revenue amounted to $1.3 trillion in the mid 1980s and then breached $2 trillion in 1992 just after the recession of 1990-91. In the 1990s revenue increases accelerated, reaching $3.2 trillion in 1998 and reaching a peak of $3.7 trillion in 2000. But in the 2000s, with the dot-com crash and 9/11, government revenue declined hitting $3.3 trillion in 2002 before resuming its increase again. Revenue reached above $4 trillion in 2005 land $5 trillion in 2007. Then came the crash of 2008 and government revenue nose-dived down to $3.6 trillion in 2009.

Viewed as a percent of Gross Domestic Product (GDP) government revenue in recent years has fluctuated. Starting at 32 percent of GDP in 1985, revenue increased slightly to 33 percent of GDP through the mid 1990s. Then revenue began an increase in the boom of the late 1990s, reaching 37.2 percent of GDP in 2000. Revenue retreated to 31.2 percent of GDP in the trough of the 2000-01 recession, before increasing back to 37 percent of GDP at the business cycle peak in 2007. In the Crash of 2008 government revenue decreased sharply. Revenue declined to 26 percent of GDP in 2009. But the revenue is expected to recover to about 35 percent of GDP in the next few year. (Chantrill, 2013)

4.1.2 Expenditure Trends of US Government

Government spending in the United States has steadily increased from $1.5 trillion in the mid 1980s to over $6 trillion today. But as a percent of GDP it has kept in a range from 33 percent to 38 percent of GDP.

Government spending first reached $1.5 trillion in the mid 1980s, and then breached $2 trillion in the recession year of 1991. In the 1990s spending increases started to level off, reaching $3 trillion in 1999. But in the 2000s with the dot-com crash and 9/11 government spending began to accelerate, reaching $4 trillion in 2004 and $5 trillion in 2008. Then came the crash of 2008 and government spending exploded to $6 trillion in 2010. After a few years of modest growth, spending is expected to resume regular increases by the mid 2010s.

Viewed as a percent of Gross Domestic Product (GDP) government spending in recent years has remained stable. At 35 percent of GDP in 1985, spending decreased as a percent of GDP until the recession of 1990-91 when it increased to over 37 percent of GDP. Then a steady decline in spending as a percent of GDP set in for the rest of the 1990s, declining to 32.8 percent of GDP in 2000. But spending increased in the 2000s to 35 percent of GDP under the influence of the recession of 2000-01 and increased defense spending after 9/11.

In the Crash of 2008 government spending increased sharply to bail out the banks and to provide "stimulus" to the economy. Spending reached 42.4 percent of GDP in 2009. But spending is expected to decline and plateau at about 38 percent of GDP in the next few years. (Chantrill, 2013)

4.1.3 Deficit Budget and Debt Trend of U.S. Government

The Deficits and Debt trends of the Fedral Government Budget of U.S.A. Presents that the traditional pattern of running large deficits only in times of war or economic downturns was broken around 1990. However, the deficits averaging $206 billion were incurred between 1983 and 1992. These unprecedented peace time deficits in creased debt held by the public from $789 billion in 1981 to $3.0 trillion (4.81 percent of GDP) in 1992.

After peaking at $290 billion in 1992, deficits declined each year, dropping to a level of $22 billion in 1997. In 1998, the Nation recorded its first budget surplus ($69.3 billion) since 1969. As a percent of GDP, the budget bottom line went from a deficit of 4.7 percent in 1998, increasing to a 2.4 percent surplus in 2000. An economic slow down began in 2001. The deterioration in the performance of the economy together with large tax reductions, as well as additional spending in response to the September terrorist attacks, produced a drop in the surplus from $236 billion in 2000 to $128 billion (1.3 percent of GDP) in 2001 and a return to deficit ($158 billion, 1.5 percent of GDP) in 2002. These factors also contributed to the increase in the deficit in the following two years, reaching $413 billion (3.5 percent of GDP) in 2004. Economic growth in 2005 and 2006 produced a sharp increase in revenues, helping to reduce the deficit to $248 billion (1.9 percent of GDP) in 2006 and even further to $161 billion (1.2 percent of GDP) in 2007.

Debt held by the public, which had peaked at 49.3 percent of GDP in 1993, fell to 32.5 percent by 2001 and increased thereafter, reaching 36.9 percent by 2005. The declines in the deficit in 2006 and 2007 helped to reduced debt held by the public to 36.3 percent of GDP in 2007.

In December 2007, the economy fell into recession, on. In response tax reductions in the form of rebates were enacted in mid-February 2008. In addition, several years of poor private-sector mortgage lending practices and other risky finantial market crisis in September 2008 that significantly deepened the ongoing recession. Lower revenue (due to both the tax reductions and lower economic activity) and recession-induced spending for unemployment assistance and other automatic stabilizers combined with a large stimulus package of further tax reductions and program increase as well as increased defence spending (due partly to the surge of troops in Iraq and subsequently, in Afghanistan) to produce deficits in 2008 of $ 459 billion (3.2 percent of GDP), $1,413 billion (10.1 percent of GDP) in 2009, $1,293 billion (9.0 percent of GDP) in 2010 and $1,299 billion (8.7 percent of GDP) in 2011. As a result there were corresponding increases in debt held by the public to 40.5 percent of GDP in 2008, 54.1 percent of GDP in 2009, 62.8 percent of GDP in 2010 and 67.7 percent of GDP in 2011. The government used a portion of the increased debt to acquire finantial assets from the private sector as a way of ameliorating the finantial market crisis and assisting the economy. This finantial assets can be considered offsets to the increase in the debt; taking them into account, however, still shows that debt net of finantial assets increased to 6.13 percent of GDP by the end of 2011 (OMB, 2013).

4.2 National Budget of Japan

The national Budget of the Japan Government consists of three types of Budget namely the General Account Budget, Special Account Budgets and the Budgets of the Government – affiliated agencies which are prepared for review by the National Diet each year. The common rules underlying these three types of budgets are as follows.

- Each and every item in government expenditure as well as revenues must be included in the budget in its entirety.
- The expenditure incurred in a particular fiscal year must be matched by the revenues received during that fiscal year.
- Unlike the budgetary system in most other countries the sources of revenues include government bonds inaddition to tax, so that the total amount of revenues in the budget always equals that of expenditure each year.

The constitution, as well as the public Finance Law prescribes that the government must prepare a draft of budget each fiscal year, present it to the Diet for approval, and then implement the approved budget in an appropriate manner to the benefit of the public. The fiscal year in Japan begins on April 1 and ends on march 31 of the next year (MOF-Japan, 2004).

4.2.1 General Account Budget

The General Account Budget, commonly referred to as the "Budget" is the basic account of the Government. This account includes most of the basic expenditures for current government operations. The expenditures in the General Account are classified by major government programs, such as public works, social security, education and science, national defence, economic cooperation, and energy measures. The General account shows the snapshot of the overall framework of the government's policies. All national taxes are treated as the revenues of the General Account except for certain earmarked taxes, such as local road taxes and special tonnage duty.

4.2.2 Special Account Budgets

Special accounts are established by legislation under specific conditions. The accounts may be instituted when the government needs to carry out specific projects, to administer and manage specific funds, or to administer revenues and expenditures separately from the General Account. Each special Account basically has its own distinct source of revenues, such as receipts from government enterprises, social insurance contributions and interest payments from loans outstandings. Also, the revenues of some special accounts may include borrowed funds. As of April 2010, there are 18 special accounts.

4.2.3 Budgets of Government – Affiliated Agencies

Government – Affiliated Agencies are established under special laws, separately from the government inorder to provide them with flexibility in personnel management and accounting, as well as to achieve greater efficiency through corporate-style management. These agencies are fully capitalized by the government. As of April 2004 there are 7 public finance corporations and two banks.

4.2.4 Budgetary Trend of Japan

Even in the bubble era around 1990, Japan finally successes in formulating the FY 1990 budget without issuing special deficit financing bonds for the first time in 16 years. After that Japan fiscal balance has been deteriorating and the deterioration was mainly in the central government especially in recent decade. But is does not mean that local governments are more conscious about fiscal soundness. The central government has increased fund transfer to the local governments so that they can cope with the problems under economic downturn. This fund transfer worsened and the fiscal balance of the central government on one side, prevented the deterioration of local fiscal situation on the other side. The difference of fiscal situation between the central government land the local governments can be seen caused rather by political power balance.

For the deterioration of Japanese fiscal balance, both of the expenditure side and the revenue side have been affected. Budgetary trend in total expenditure and tax revenues of General Account show that total expenditure continues to increase since late 1970s and the other hand, tax revenues are downward trend after 1990 on the other hand. As a result bonds issuance has been increasing and accelerates recently as consequences of global crisis these two fiscal years: 2009 and 2010, the borrowing becomes bigger than the tax revenues which is an extraordinary situation never seen since immediately after the World war II.

4.2.5 Trend of General Account Expenditure

The General Account budget of the Japan government presents that the General Account Expenditure is increasing continuously since 1990 to 2010. The total budgetary expenditure for the fiscal year 1990, was 66.23 trillion yen while that has increased to 70.98 trillion yen in FY 1995, 84.987 trillion yen in FY 2000, 82.18 trillion yen yen in FY 2005 and 92.29 trillion yen in the last of the FY 2010. The General Account Budget 2010 presents that the national debt service (expenditure allocated to interest payment and debt redemption for national government bonds), local allocation tax grants etc. and security related expenditures occupy almost 70% of the total expenditure.

The composition of the General Account Expenditure of FY 2010 provides that general expenditure is ¥53.45 trillion (75.9% of T.E.), social security is ¥27.26 trillion (29.5%), public works is ¥5.77 trillion (6.3%) Education and science is ¥ 5.58 trillion (6.1%), National defense is ¥4.79 trillion (5.2%), Repayment of the fund of the compensation for the short fall at settlement is ¥0.718 trillion (0.8%), National debt service is ¥20.64 trillion (22.4%), Interest payment Expanses is ¥9.8 trillion (10.6%), Redemption of the National Debt is ¥10.84 trillion (11.17%), Local allocution Tax Grants is ¥17.47 trillion (18.9%) and others are of ¥10.036 trillion (10.9%) of the total General Account Expenditure 2010 (MOF-Japan,2012).

In the increasing trend of expenditures, public works were first increased inorder to add public demands in the aftermath of bubble brust then declined in these ten years caused by the population aging, continuous increase in social expenditure is observed. The high level of public works expenditure implies room for reduction, but increase of old infrastructure facilities over 50 years might limit room for expenditure cut as higher cost for repairs and maintenances would be required.

4.2.6 General Account Revenue Trend

Revenue Trend of the General Account budget of the Japan government shows that the trends in the governmental revenues are in downward trend after 1990. Allmost all Japan's major tax reforms after 1990 were tax reductions except the consumption tax rate increase in 1997. The motivation of tax cuts were both economic stimulus in recession and rather structural ones like corporate income tax reduction inorder to improve the competitiveness of Japanese Companies. Japan Tax System has not successes to produce sufficient revenues not only because of economic down turn but also as a result of repeated tax reductions.

The total tax revenue raised in the FY 1990 was ¥58.004 trillion, ¥53.73 trillion in FY 1995, ¥48.659 trillion in FY 2000, ¥44.007 trillion in 2005 and that ¥37.39 trillion in at the end of the FY 2010. On the otherhand other revenues raised were ¥2.63 trillion in FY 1990, ¥4.65 trillion in FY 1995, ¥3.78 trillion in FY 2000 and that has grown to ¥10.60 trillion in the FY 2010.

Budget analysis of General Account Budget 2010 reveals that tax revenues in Japan cover only a bit more than 40% of the total revenues while the remaining nearly 50% depends on government bond issues which can be posed burden for the future generation.

Break down of the Japanses Revenues 2010, General Account Budget, presents that the general account total revenue comprises the Income Tax is of ¥12.61 trillion (13.7%), Corporate Tax is of ¥5.9 trillion (6.4%), Consumption Tax is of ¥ 9.63 trillion (10.4%), Construction Bonds is of ¥6.35 trillion (6.9%) Special Deficit

Financing Bond is of ¥37.95 trillion (41.1%) and Others are of ¥9.19 trillion (10.0%). In the FY 2010 General Account Budget, while tax revenues decline to the levels of FY 1984 at 37.4 trillion yen, other revenues and government bond issues are at record high levels. It is the first time in the post war era that tax revenues have declined below a government bond issues in the initial budget (MOF-Japan, 2012).

4.2.7 Trend of Deficit Budget

If we take a look at the accumulation of government bonds outstanding since FY 1990, the year starting from which Japan could manage its public finance without depending on the issuance of special deficit financing bond, in the 1990, expenditure growth was mainly attributable to the increase in public work related expenditures. In contrasts, expenditures have been recently growing mainly due to increased social security relate expenditures resulting from the aging of Japanese society. Government revenues have been shrinking mainly because tax revenues are falling due to the economic downturn and tax cuts in recent decade.

The issuance of government bond is comprised by the issuance of construction bond and that the issuance of special bond. The construction bonds are issued only for public work projects (e.g. construction of roads, bridges and other facilities) which would become social infrastructures benefiting both the current and future generations and for financing of equity participation and lending. From FY 1966 to FY 1974, construction bonds were the only type of bonds that had been issued. On the otherhand, the issued specific deficit financing bond is in the emergency situation (e.g. crisis, disaster etc). The public Finantial Law of Japan for the first time permitted the issuance of special deficit financing bonds in the supplementary budget of FY 1975. On the otherhand, the special deficit financing bond is used in the emergency situation of the country. This bond was issued by Japan government for the first time in the supplementary budget of FY 1975.

The government bond issue in FY 1990 was ¥7.3 trillion which then increased to ¥21.2 trillion in FY 1995 and in FY 1999, it was ¥37.5 trillion which was the highest record during Ninties. Thereafter, it has slightly decreased to ¥30.0 trillion in 2001 then increased upto ¥52.0 trillion in FY 2009. In the FY 2010, the bond issuance of Japan government is only ¥44.3 trillion. On the otherhand the bond dependency ration in FY 1990 was 9.2 which increased to 24.2 in the FY 1955 and in FY 2000 it was 36.9. The bond dependency ration has taken a continuous increasing route of trend after the FY 2000 however, it was decreased to 36.6 in the FY 2005 while 44.4 at the end of the FY 2010.

Thus the amount of outstanding bonds has continued to rise on increasing rate and it is expected that this leaves a great burden to current and future generations of the Japan (MOF-Japan, 2012).

4.3 Union Budget of India

The Union Budget of India, referred to as the Annual Finantial Statement in Article 112 of the Constitution of India, is the annual budget of the Republic of India. The government budget in India gives a complete picture of the estimated receipts and expenditures of the government. Infact, the budget document is a complete action of plan depicting three sets of figure viz the actual figures for the previous fiscal year, revised estimates of the current year and budget estimates of the coming year. The budgetary fiscal year in India comprises of the period from April 1 to March 31.

The budget is normally presented every year on the last day of February of the preceding year by the finance Minister before the parliament. In the case of state governments, the budget is presented before the state legislatures by their respective Finance Ministens. After the budget is presented, it is debated. The demands of various ministries are discussed and suitable amendments thereon are made. A scope is provided in the budget session for discussion on the working, efficiency or otherwise of each ministry or department. After the budget proposals of receipts and disbursements pass though the critical analysis of the members of parliament or state legislatures, as the case may be, and the demands are voted upon. A finance bill is passed to approve the purposals and Appropriation Bill is ultimately passed to raise proposed taxes and incur purposed expenditures.

In India, according to Article 112 of the constitution, an annual finantioal statement will be placed before parliament (Lok Sabha and Rajya Sabha) and Article 202 of the constitution provides that a similar finantial statement of each state will be placed before the legislature of respective state. Moreover, the government accounts are kept under three heads : Consolidated Fund, Contingency Fund and Public Fund. (Lekhi, 2011)

The public (government) budget may either be presented as a whole or in parts. The countries having a unitary system of government generally present one single unified budgetary document. In fedral countries, on the otherhand, it is presented in parts. These countries have different layers of government administrations- central, state and local and the budgets are prepared, passed and implemented separately by the each individual layer of government. Although, these budgets are passed separately, yet they may involve certain inter government transactions like the loans and grants of the sharing of the revenues between the state and the central government budget. Sometimes, these budgets are split up into parts. For instance, in India also, railway budget is presented separately from the central budget but railway budget is the integral part of the central finance.

4.3.1 Budgetary Trends of India

The budgetary trends in India since 1991 can be explained interms of four headings. They are : Budgetary Trends of Revenue Receipts and Revenue Expenditures, Budgetary Trends of Capital Receipts and Capital Expenditures, Budgetary Trends of Plan Expenditure and Non-plan Expenditure and the Budgetary Trends of Deficit Spending.

4.3.2 Trends of Revenue Receipts and Revenue Expenditure

Budgetary trend of the Revenue Receipts and the Revenue Expenditures have undergone a significant change since 1990/91. In the aggregate, revenue receipt i.e. tax revenue and non-tax revenue has drastically increased as it was Rs. 54954 crore in 1990/91 which rose to Rs. 192605 crore in 2000/01. This increase was about four times more. It was registered Rs. 201306 crore in 2001/02 which has risen to Rs. 682212 crore in the finantial year of 2010/11.

However, the aggregate amount of the revenue expenditure was Rs. 73516 crore in 1990/91 which rose to Rs. 277838 crore in 2000/01. But in the year 2005/06, it was Rs. 439761 crore while it has amounted to Rs. 958724 crore in the year of 2010/11. (MOF-India, 2011)

4.3.3 Trends of Capital Receipts and Capital Expenditure

The aggregate capital receipts rose from Rs. 31971 crore in 1990/91 to 132987 crore in 2000/01. It was Rs. 192261 crore in the fiscal year 2005/06 while it has increased to Rs. 426537 crore in the last year of 2010/11. This trend was achieved due to the result of economic reforms since 1991 both in the domestic and international spheres inorder to bring the disrupted economy back on rails.

However, the growth of capital expenditure was almost double as of Rs. 24756 crore in 190/91 which puts the figure at Rs. 47754 crore in 2000/01. But during 2004/05, there was a growth of expenditure amounting to Rs. 113923 crore which sharply declined to Rs. 68778 crore in 2006/07 and increased to Rs. 118238 crore in 2007/08 then again decreased to Rs. 90158 crore in the fiscal year of 2010/11 showing capital expenditure since 1990/91 onwards has also witnessed upward trends.

4.3.4 Trends of Plan Expenditure and Non-Plan Expenditure

For development plans, resource are raised from various sources which may be broadly grouped under domestic and external mobilizations. Among the domestic sources, budgetary surplus, contribution of public enterprises, market borrowings and small savings deserve special mention. External assistance is obtained from international finantial organizations like (IMF, world bank, Aid India Consortium etc. and foreign countries. Resources to deficit financing is taken for the uncovered gap. The trend of plan financing in India indicate that the government has failed to raise adequate resources from the expected sources. The failure is partly on account of errors in estimating funnel sources and partly on account of economic, social and political instabilities and the associated delay resulting in time over-run and cost over-run in the process of plan implementation.

The budgetary support to plan expenditure during 1990/91 to 2000/01 rose from Rs. 28363 crore to Rs. 82669 crore and further to Rs. 140638 crore in 2005/06 while it has grown to R. 373092 crore in 2010/11. Interms of percentage of GDP it has shown an upward trend it stood at 5.0% in 1990/91 which has fallen to 4.7% under the year of 2010/11.

Non-plan expenditure has also shown upward trend during the period of 1990/91 to 2010/11. It was amounting to Rs. 69907 crore in 1990/91 which increased to Rs. 242923 crore in 2000/01 while it was Rs. 365485 in 2005/06 and stood to Rs. 735657 crore at the last year of 2010/11. Interms of percentage of GDP, it has recorded a downward trend as 12.3 percent in 1990-91 to 11.6 percent in 2000/01 while in 2005/06, it was 10.2 percent however it has declined to 9.3 percent at the last year of 2010/11(MOF-India, 2011).

4.3.5 Deficit Trends of the Central Government of India

The fiscal deficit was amounting to Rs. 37606 crore in 1990/91 which rose to Rs. 118816 crore in 2000/01, the growth during the period was more than three times. It was recorded to be Rs. 146435 in 2005/06 while it has amounted to Rs. 381408 crore in the fiscal year 2010/11. The fiscal deficit intems of percentage of GDP declined from 6.6 percent in 1990/91 to 5.7 percent in 2000/01. Then increased to 6.2 percent in 2001/02 while it has declined to 4.8 percent in final year of 2010/11 showing declined trend of fiscal deficit of India interms of the percentage of GDP (MOF-India, 2011).

CHAPTER V

BUDGETARY SYSTEM IN NEPAL

5.1 Introduction

Nepal's budgetary evolution spanned more then six decades since 1951 when the budgetary process initiated. GON, after the restoration of multi-party democracy, adopted the open and liberal economic policy and, in the process has been repealing the prevailing restrictive rules, regulations, laws and directives governing the economic policies one after another with great zeal and vigor. Budgetary policy has also undergone changes to that direction since the very first budget of the multi-party democratic government. Growing challenges encountered in relation to the rising expectation of the people have encouraged government to reconsider the means that could manage scarce resources in a more organized and effective manner. GON has been responding to these expectations in various ways including strengthening program, budgetary practice, delineation of budget, classification of income and expenditure heads to make it more comprehensive and informative, clear enunciation of objectives pursued by the particular budget, its linkage with national development objectives an compatibility with the policy of liberalization.

Now for the further structural reform of fiscal management and expenditure control, the GON intends to undertake wide ranging reforms to rationalize the expenditure program and improve budget planning by prioritizing both donors supported and fully government funded projects, strictly controlling fund releases, strengthening the administration of project implementation and improving project monitoring.

5.2 Historical Background

Nepal has not a very old story to tell about the initiation of systematic budgetary system in the country. It has been only six decades after the Rana regime was overthrown in 1951 the first budget was formulated. For convenience, the historical background of budget of Nepal has been divided in three different phases:

5.2.1 Before 1951

During the period before 1951, the state treasury was under the sole control of the Rana Prime Ministers. The country remained isolated from the outside world and the few ruling elites had no concern of the well-being of the country and its people.

The treasury offices in different district headquarters were responsible for collection of revenue and disbursement expenditure. The central level office responsible to control the whole exercise was Kumari-chowk, the state treasury office. Therefore, the amount of the government expenditure was limited. Any budgeting system and economic development through planning were not implemented at that time.

5.2.2 After 1951

After the political change of 1951 in Nepal, the responsibility of the government to launch different programs increased. For these purposes, discussions that are more practical appeared in the planning sector. In 1952, first national budget was pronounced and after this, the national budget is formulated every successive year.

In those days, the budget used to contain just the revenue estimates form different sources and the expenditure needed for different heads. Later on in 1958 as the development planning started, the government began to increase the budget size and the customary budgeting process was changed. The budget started to have two portions i.e. regular budget and development budget. The former to deal with the ordinary expenditure of he government and to maintain the law and order while the later to deal with the expenditure as provide for the development plans. In fact, the first development plan was introduced in the FY 1958/59 under the heading of "Plan Account."

In the budget history of Nepal, FY 1962/63 is of much importance because some structural change in the budget took place from that fiscal year. In 1962, a functional classification scheme was introduced and it has been prepared in continuous basis from that year with some reform measures. Economic classification of budget was also taken place in the budgetary system to the country since then.

Nepal incurred large fiscal deficits following the 1980 referendum, the verdict of which went in favor of the party less panchayat system against the multiparty system. Successive governments formed after the referendum followed an expansionary fiscal policy. The widened deficits put pressure on the balance of payments leading to a deficit for three consecutive years-FY 1982/83 to 1984/85. It was this crisis on the external front that forced the government to initiate economic reforms. The types and contents of economic reforms were largely the result of negotiations conducted with the IMF and the World Bank for financial assistance.

5.2.3 Budgetary Experience After 1990

Government of Nepal, after the restoration of democracy, adopted the open and liberal economic policy and, in the process, has been repealing the prevailing restrictive rules, regulations, laws and directives governing the economic policies one after another with great zeal and vigor. Budgetary policy has also undergone changes to that direction since the very first budget of the multiparty democratic government. Many reform measures in the fiscal sector were introduced and initiated on both the revenue and the expenditure side. It is because of this the study focuses the budgetary trend only after the year 1990/91.

During the first half of the 1990s, Nepal went through a period of fiscal consolidation as an integral part of an economic liberalization and reform program. Nevertheless, the expansionary fiscal policy adopted by a succession of short-lived governments during the latter half of the 1990s resulted in an increase in fiscal deficits, debt stock and debt-servicing obligations.

Two measures were taken to widen the tax base. The first was reduction in both the tax rates and slabs of various taxes prior to the reforms, tax rates were as high as 300 percent. An excessively higher rate encourages tax evasion and act as a disincentive for further production. Consequently, revenue mobilizarion falls below the potential level. Under the circumstances, raising revenue requires lowering tax rates with a view to widening the tax base and improving tax collection, Nepal lowered the tax rates. Similarly, the number of tax slabs of earlier years that have made tax administration too cumbersome. However, it has been realized that lowering the tax rates without the commensurate improvement in revenue administration and an orderly tax system does not produce the intended results. As such, reforms in revenue administration were also introduced.

In direct taxes which was dominating in the Nepalese tax system had exemptions and loopholes. The system did not cover all commodities and services produced and distributed within the economy. As such, it had a narrow base. Realizing this and under the advice of multilateral agencies such as the IMF and the World Bank, Nepal introduced the VAT, a unified indirect tax instrument. However, because of the opposition from the business community, the introduction of VAT was frequently postponed before it was finally implemented.

5.3 Preview of Budget system

The budgetary process in larger governmental units involves four steps: preparation and submission of the budget to legislative body, enactment of authorization and appropriations legislation, execution and audit. Responsibility for preparation of the budget usually rests with the executive branch of government-assisted, in larger government by a special budgetary experience that handles the work of preparation, under the jurisdiction of the chief executive. The first cycle of budget takes several months for preparation, but in developing countries budget is prepared within a period of a few weeks. Budget is formulated at a time for two consecutive years in developed countries ensuring continuity in policies and programs and providing effectively delivery of goods and services to the people.

5.3.1 The Formulation Process

Budget formulation consists of the four steps or phases, which are also known as budget cycle:- Phase 1: Preparation, Phase 2: Enactment/Legislation, Phase 3: Execution, Phase 4: Auditing

5.3.1.1 Preparation

Preparation is the first step of budget formulation. It starts with resource estimation. Budget division of finance ministry has the responsibility for preparing budget. For development budget, NPC play major role and for regular budget, budget division of finance ministry play major role. The Resource Committee (RC) comprising Vice Chairperson of National Planning Commission (NPC), Member of NPC - Macro Sector, Governor of Nepal - Rastra Bank (NRB), Financial controller General and Secretary of Ministry of Finance determines the size of the budget by analyzing overall economic situation of the country with the help of macro economic indicators. Resources estimate comprises estimates of revenue, foreign foreign grant and domestic borrowing. Upon accomplishing resource estimation, the Resource Committee sets the ceiling for budget for the next fiscal year. Revenue Consultative Committee (RCC) set up at the national level under MOF provides recommendations for designing policies, determining tax base and tax rates, setting the level of exemptions, and personal and business deductions. The budget ceiling is fixed considering availability of both internal and external resources. The NPC sets out the priority and policy goals with respect to plans and programs for forthcoming FY and provide necessary guidelines to the concerned ministry and the MOF, prior to sending of circular for preparation of budget. In course of preparing the budget documents, finance ministry issues some guidelines and priorities consistent with economic planning and fiscal policy and sends the circulars to all ministries and departments to prepare the budget with following information:

- Ceiling of funds including external assistance available for each Ministry for various budget funds.
- Formats to be used for various estimates and instruction to be followed in preparing the estimates.
- Policy guidelines to be followed in prioritizing activities.
- Manual to be used for resource allocation for the various budget headings.

Budget preparation at the Ministry level begins after receiving the circular based on its programs and policies. The respective Ministry submits the prepared budget proposal and the annual program-one copy each to NPC and MOF in the beginning of the third trimester of the fiscal year.

In the case of capital budget, the first round of discussion takes place at NPC. The proposed program is critically examined in the prospective of policy guidelines and the circular. The MOF staff assesses the aid-involved projects in the context of the confirmed and unconfirmed commitments of the respective donors. The final round of discussion takes place at MOF, represented by the concerned ministries/ departments and NPC staff. MOF prepares a statement of expenditure containing description of all estimated expenditure for each sector Ministry, which would be ready by June/July.

5.3.1.2 Enactment/Legislation

Enactment/Legislation is the second step of budget formulation. The phase enactment begins with budget speech by the Finance Minister at the joint session of parliament in the second or third week of July. It is followed by a brief discussion of the underlying budgetary principles and policies. The minister also submits an Appropriation Bill and the Finance Bill to the Parliament. The Appropriation Bill is accompanied with a description of programs and their regional distribution. The discussion in parliament lasts for one and half to two months, when subjects are analyzed item wise, followed by a voting on the bill in parliament in September. After about one to two weeks from the date of parliamentary approval of the bill, the bill gets the royal assent to become an Act.

5.3.1.3 Execution

The third cycle of budget is known as a phase of execution. In this stage, budget is executed by the executive body of the government. The fund release process begins with the approval of the budget by the parliament. The process of releasing budget is given below:

- One third of the previous year's expenditure can be released as the Advance Bill before royal assent. Subsequent releases are possible only after the Appropriation Bill gets royal assent.
- Release of budget is made on monthly basis.
- For donor funded projects, budget is to be released on a pre - funding (donors have to put deposit to GON Treasury in advance) and reimbursement basis (applied for loan-financed projects and to some extent for bilateral donor - financed projects depending upon the agreement).

The Financial controller General Office (FCGO) and District Treasury Office (DTO) play an important role in the budget release process. It is noted here that DTO release the fund upon the receipt of the following documents.

a) Authority letter from the concerned ministry
b) Release order to DTO by FCGO
c) Project/Program duly approved by NPC and documented in the budget
d) Statement of expenditure of the previous month from the requesting agency.

5.3.1.4 Auditing

The last phase of budget cycle is auditing. The overall responsibility of auditing goes to the Auditor General (AG). AG prepares the annual report after accomplishing auditing of all government transactions. The AG presents its annual report to His Majesty. This is later forwarded to parliament for discussion and implementation.

5.4 Weaknesses of Budget Formulation in Nepal

Over Estimation

The resource estimation in Nepal is mostly based on accounting trend and intelligent judgment. Sometimes it leads as much as 25 percent differences between the estimated and the realized revenue. With weak estimation, whole expenditure planning becomes a failure.

Political Intervention

Budget in Nepal is driven by more political objectives rather than social and economical objective of the government. The Nepal Public Expenditure Report (PER) 2000 points out that the development budget is heavily over programmed. Because of the political pressures, the size of the budget is set at levels, which are not consistent with the actual availability of resources and institutional capacity. The consequence is that the limited resources are spread too thinly among to many projects.

Lack of Participatory Approach

Local ownership of the projects may improve the effectiveness of public spending. Budget formulation is not participatory in real sense, which explains why there is lack of ownership of projects and programs by local communities. It results into poor performance.

Not Performance Based or Zero Based Budgeting

Zero based or performance based budgeting system is effective to cut down expenditures. It is not practiced in Nepal, although it is recommended from various quarters that the government should introduce it. Past performance is not reviewed while formulating budget and it follows incremental approach.

No Earmarking of the Funds

There is no practice of earmarking the certain revenue for the certain purpose only.

Donor's Pressure

Some projects are kept under first priority just because they are donor financed.

Budgetary Uncertainty

Since for a long time, Nepal has been suffering from political instability. Political initiatives like Bandh, Strike, highway obstruction, road block and Gherao that obstruct the economic stability. There is a lack of political concensus on national economic agenda which has been main caused to make irregularity in the presentation of the budget. Due to the absence of timely revision on revenue policy and rates as per the necessity of the economy, revenue growth is continuosly decelerating. The revenue growth rate declined also due to the slackness in economic activities caused by budgetary uncertainty.

5.5 Government Budgetary Operation

For a number of years budget in Nepal was classified under two categories: regular and development. However, this has been adjusted to international classification of current budget and capital budget from FY 2004/05. The major headings under current budget are expenditures on consumption expenses, office operation and service, grants and subsidies, service and production expenses, contingency expenses, principal and interest payments on domestic and foreign loans. Likewise, items falling under capital expenditures are capital transfer, capital formation, investment in share and loan, and capital grants.

The NPC determines the size of capital/development expanditure conformity with the polices programs and priorities envisaged in the national plan and also by considering the extent of external borrowing both bilateral and multilateral grants and loans as well as domestic borrowing available to treasury during the given fiscal year. The capital development budget includes all the expanses of development project on going and new. Expenditure on capital projects, training research exploration and improvement of infrastructure are classified as development expenditures. Projects/programs activities supported by external assistance are also reflected in the development budget. The magnitude of current/regular expenditure is estimated on financial ceiling provided by the MOF and the NPC (Financial management project, 1995). There is limited scope to expand the size of current budget in a resource scare economy where tax elasticity and voluntary compliance on the part of tax payers are very low.

Tax revenue constitute of both direct and indirect taxes. The premier direct tax are on net income, property and capital gains and major indirect taxes include domestic taxes on goods and services like VAT, excise etc, taxes on international trade and transaction like export and import duties. Non tax-revenues constitutes income from public enterprises, sales of government property, administrative fees, fines and penalties and royalties.

A budget therefore, should be designed to facilitate determination of governmental activities in the light of the preference of society by ensuring the comparison of conflicting programs and methods in the attainment of the goals. The budget should also aid in attaining greater efficiency in the use of governmental resources.

5.6 Budgetary Reforms and Policies

Every democratic government makes vigorous efforts for maximizing the welfare of the community in the modern times. In order to achieve, the government takes in hand various socio-economic activities. This requires proper manipulation of the budgetary policy of the government.

In Nepal, after restoration of democracy government initiated the economic strategy of maximizing public participation by promoting the role of the government from a controller to facilitator for the economic development of the country. Liberal and market oriented economic policy is followed against the inward looking and controlled economic policy for the attainment of sustainable higher growth rate in non agricultural sector.

Budgetary policies of Nepal Government during the Nineties were directed towards economic liberalization, privatization, poverty reduction and decentralization. Policies and programs of the budget during Nineties were essentially concerned with agriculture, modernization, employment promotion, women empowerment, financial sector reform, government expenditure management, tax reform, good governance, social service and the development of basic and physical infrastructure. The budgetary policy measures adopted by the first two budgets deserve appreciation at least in terms of the direction towards liberalization through they were still inadequate in terms of achieving the desired results. (Adhikari, 2004/05)

Developed and developing economies need to design economic policies that facilitate implementation of structural reforms and should also be flexible enough to achieving sustainable and broader economic growth. (Economic Survey, 200/05)

5.6.1 Structural Adjustment Program (SAP) and Enhanced Structural Adjustment Facility (ESAF)

The government adopted a stability program supported by the IMF Standby Arrangement and a Structural Adjustment program in 1987 and in 1989 financed by The World Bank Structural Adjustment Credits and by an IMF Structural Adjustment Facility. The specific objectives of the adjustment program in Nepal were:

- Macroeconomic Stabilization,
- Increased resource mobilization,
- Enhanced investment efficiency,
- Improvement in financial management of public enterprises,
- Increased productivity and employment in the agriculture, forestry, trade and industry.

Nepal entered into another agreement with IMF under the Enhanced Structural Adjustment Facility in 1992 after second SAP expired in 1990. The objectives were:

- Raising GDP growth to about 5 percent per annum in the next three years,
- Reducing annual inflation to 5 percent and limiting current account deficit to 9.6 percent of GDP,
- Reducing fiscal deficit to 7.8 percent of the (before grant) with domestic borrowing limited to 0.2 percent of GDP by the end of the program period (1994-95).

5.6.2 Immediate Action Plan (IAP) and Medium Term Expenditure Framework (MTEF)

In June 2002, Nepal Government adopted the IAP that was designed to expedite reforms in three critical areas-prioritizing public expenditures, improving service delivery and strengthening anti-corruption and accountability measures. Main IAP actions as regards public expenditure include:

- Setting a realistic budget ceiling and eliminating a number of low priority projects.
- Assuring funding for high priority projects, but tying funds release to performance.
- Implementing public procurement and financial accountability reforms.
- Public posting of budget information and tracking of expenditures.

Based on the recommendation of the 2000 Public Expenditure Review and the work of the Public Expenditure Review Commission in 2001, and prompted by the worsening fiscal situation, Nepal Government decided to introduce MTEF starting in FY 2002/03. Overcoming the entrenched tendency to seek increased foreign aid to cope with fiscal stress, the reform minded NPC and MOF used the fiscal pressure to motivate serious adjustment in budget allocations.

5.6.3 Three Year Plan (2010/11 to 2012/13)

After coming to an end of Three Year Interim plan (2007/08 - 2009/10), NPC has formulated and implemented the Three year plan (2010/11 to 2012/13). This plan, being prepared at prevailing a special moment in the country's history, is expected to give continuity to previous achievements, and to address issues specific to the transitional period in a post-conflict situation. This Plan puts special emphasis on increasing public expenditure to assist relief and generate employment as well as on peace building, state restructuring, rehabilitation, reintegration, inclusion, and revitalization of the economy and state of transition to ensure the completion writing of the constitution of the Fedral Democratic Republic of Nepal. Following budgetary reform policies have been envisaged in this plan:

5.6.3.1 Expenditure Policies

a) In the past, there was negative impact on national income growth and other economic indicators as the regular expenditure was more than targeted and development expenditure far less than targeted. The following policies will be adopted in order to improve public expenditure management.

b) Additional efforts will be made to increase efficiency in public expenditure to strengthening fiscal system, and maintaining fiscal discipline in order to help maintain macroeconomic stability. Additional measures will be adopted to reduce the imbalance between current and capital expenditure.

c) Medium Term Expenditure Framework will be reviewed and input/outcome/impact system will be adopted in a concrete manner for new methods of sectoral prioritization and investment effectiveness.

d) Budget release and control system will be reviewed and improved.

e) Unproductive expenditure will be gradually reduced, and auditing enforced to maintain fiscal discipline.

f) Feasibility study will be carried out to implement a zero-based budgeting system.

g) Gender accountable budget system will be institutionalized.

5.6.3.2 Tax Policies

a) The system of collecting and mobilizing taxes will be made transparent and simple by reviewing existing tax system and acts.

b) Revenue leakage will be controlled by strengthening revenue administration capacity.

c) Value Added Tax system will be made more effective

d) The tax base will be gradually broadened.

e) Customs rate and other tax systems will be adopted in line accordance with Nepal's commitment to international and regional organizations like World Trade Organization, and SAFTA.

f) Domestic revenue mobilization will be strengthened by broadening reintegration and inclusive development.

The projection of Government budget for the three years' plan is as following.

Table : 5.1

Budgeted Expenditure for the Three Year Plan (2010/11-2012/13)

(Rs in million)

FY	**Current**	**Capital**	**Principal Repayment**	**Total**
20010/11	177680 (56.80%)	114000 (36.44%)	21100 (6.74%)	312780 (100%)
2011/12	195450 (57.42%)	121300 (35.63%)	23640 (6.94%)	340390 (100%)
2012/13	211080 (57.54%)	129040 (35.17%)	26710 (7.28%)	366830 (100%)
Three Years' Total	584210 (57.27%)	364340 (35.71%)	71450 (7%)	102000 (100%)

Source: Three Year Plan: Approach paper (2010/11-2012/13)

Table : 5.2

Sources of Financing in the Three Year Plan (2010/11-2012/13)

(Rs in million)

FY	**Revenue**	**Grant**	**Foreign Loan**	**Domestic Loan**	**Total**
20010/11	20598 (65.85%)	55030 (17.59%)	20470 (6.54%)	31301 (10%)	312790 (100%)
2011/12	228430 (67.10%)	58330 (17.13%)	23120 (6.79%)	30510 (8.96%)	340390 (100%)0
2012/13	243580 (66.40%)	61830 (16.85%)	30520 (8.31%)	30900 (8.42%)	366830 (100%)

Three years' Total	674990 (66.46%)	175190 (17.17%)	74110 (7.26%)	92720 (9.09%)	1020010 (100%)

Source: Three year Plan : Approach Paper (2010/11-2012/13)

5.7 Sizes and the Objectives of GON Budgets After 1990

The sizes and the objectives of the GON budgets have been changed remarkably after the political change of 1990. The magnitude of the budget presented by the Interim government formed after the establishment of the multiparty democracy in 1990/91 was Rs. 19.8 billion. The main objective of the budget was to extend all possible supports from economic front towards the task of formulating new constitution and establishing the popularly elected democratic government in the deference to the wishes and expectations of the people's movement. This budget identified the vital significance of the role of the private sector and accordingly adopted the privatization concept. Moreover the budget was so designed as to provide the ensuing government a solid foundation for eradicating the disparities and distortions inherent in the economy and that its major thrust was to lesson the hardship of the people.

In 1991/92, Nepali congress (NC) secured the absolute majority in the general election held after the restoration of multiparty democratic system. The NC government presented the budget of Rs. 26.74 billion to the first session of the parliament. In true sense, this was the first budget in the direction towards the liberalization of the Nepalese economy. It gave a new vision to encourage participation of the private sector in productive areas. In this budget, it was realized that the government role in the industrial and other enterprises should gradually be decreased with corresponding increased participation of the private sector. Thereafter, especially the objectives of the democratic budgets presented by the various government were motivated by fulfilling the desires and the needs of the common Nepalese people. However, some new objectives like peace restoring, reconstructions and rehabilitations ect. were adjusted in the frequent presentations of the democratic budgets especially after 1996 due to an ensuing ten-year civil war between Maoist extremists and the government forces until 2006. The size of the budget presented for FY 2006/7 was Rs. 143.91 billion as it was 13.75 higher than the budget presented in the FY 1990/91.

However, the signature of the comprehensive Peace Agreement (CPA) in 2006 between Maoist and the government officials brought a halt to the immediate violence and the Interim Constitution of Nepal 2007 announced Nepal to be a Fedral Democratic Republic. Following a Nationwide election in April 2008, the Newly formed constituent Assembly declared Nepal as a Fedral Democratic Republic which abolished the monarchy at its first meeting the following month.

As Nepal made a historic 'U' tern-the end of the era of feudal monarchy in 2008, the first Mega budget of the Republic Nepal presented by the Finance Minister Bhattrai (2008), under the Maoist led government amounted to Rs. 236.15 billion. This Mega budget was 39.7 percent higher than that the budget of the FY 2007/8. In was stated that "this Mega budget is needed to move ahead and take a gaint leap forward". The major thrusts of this budget were the institutionalizing the Federal Democratic Republic and the socio-economic transformation for building just, advance and New Nepal by the promulgation of the new constitution. Thereafter all the Republican budgets have been guided by the promulgation of the new constitution, bringing peace process into logical end, relief, reconstruction and rehabilitations and the rapid growth of the economy. The informations regarding the sizes, objectives and the names of the Finance Ministers who delivered each finantial year's budget to the legislature parliament during two decades after 1990-91-2010/11 have been mentioned in the Appendix-1.

CHAPTER VI

AN ANALYSIS OF THE TRENDS OF BUDGETARY COMPONENTS OF THE GOVERNMENT BUDGET IN NEPAL

6.2.2 Introduction

Actually after the political change of 1951/52 in Nepal the responsibility of the government to launch the different programs has been increasing progressively. As an increase in the responsibility of the government there was simultaneous increase in the government expenditure and its revenue as well which can be clearly seen in its annual budget. However due to lack of resources, there was tremendous shortage of funds. Because of this financial constraint the government has no other option but to introduce deficit financing which was first used in the first national budget of the country in 1951/52 to meet the growing requirements of funds for developing works. Since then the government has usually been continuing to introduce deficit financing quiet frequently in Nepal.

Budget being the main instrument of economic policy incorporates policies, programs and activities related to government expenditure, revenue an other sources of financing. The main aspect of budget are expenditure, sources of revenue and financing of deficit. Tax and non-tax revenue plays vital role in collection of revenue for meeting the requirement of government expenditure. Foreign grants are also include in the sources of finance. Any difference between government expenditure and government receipts is financed through external (foreign loan) and internal sources (banking, non banking and cash surplus/deficit. As government activities and obligations are increasing, deficit financing is the common phenomenon of every budget.

This chapter presents an analysis of the trends of budgetary components of the GON budget like the government expenditure, revenue, deficit budget and debt of government during the period of 1990/91 to 2010/11.

6.3 Components of the Nepalese Budget

The Structure of Budget includes various components incorporated within budget. Nepalese budget not only comprises of expenditures and revenue but also heavily depends on foreign grants and loans. The main components of Nepalese Budget can be divided in to the following main headings:

i. Government Expenditure

ii Government Revenue

ii. Foreign Grants

iii. Loans (Internal and External)

As per international classification, Government Expenditure is classified as recurrent expenditure, capital expenditure and principal repayment expenditure from FY 2004/05. Public Revenue can be divided into tax revenue and non tax revenue as well.

6.3.1 Government Expenditure

Government expenditure refers to the expenses incurred by the government for the maintenance of the government and to preserve the welfare of society as a whole. In other words, it refers to the expenses made by public authorities i.e. (State

Government, Central Government and Other Local Bodies) to satisfy the common wells of the people. It is for protecting the citizens for promoting the common and social welfare. Government expenditure was classified into two headings: Regular Expenditure and Development Expenditure till 2003/04. From the year 2004/05 the same has been classified as Recurrent Expenditure, Capital Expenditure and Principal Repayment Expenditure.

Nepal being a developing country, there is an urgent need of expending development expenditure. However, there is also a growing financing expenditure requirement in revenue collection. Situation of revenue receipts determines the amount necessary for foreign assistance and internal borrowing. The growth of government expenditure in Nepal has been phenomenal as evident from the fact that every finance minister ever since the beginning of the budgeting system in 1951 has presented a public expenditure program larger than that of the previous year (Adhikari, 2004). As the data is available from the fiscal year 1998/99 as per new classification, trend of public expenditure will be analysed for the period 1998/99 to 2010/11. The main components are as follows.

6.2.1.1 Recurrent Expenditure

Recurrent Expenditure is one of the major components of total expenditure which is the current expenses of government for maintenance of law and order in the economy and expenditure on regular activities which is in the nature of consumption. No capital equipment is added from such type of consumption. Its main components are expenditures on general administration, social services, economic services, defence, loan, principal payment and interest payment etc.

6.2.1.2 Capital Expenditure

Capital expenditure is the investment made by government in the economy to add productivity and capital equipment in the economy. Capital expenditure is importance for the developing countries like Nepal for its rapid growth and development. Capital expenditure is also made up of different components. Its main components are economic service, capital expenditure on deficit, economic administration and planning etc.

6.2.1.3 Principal Repayment Expenditure

Principal repayment is the share of internal loan payment and external loan payment. Its share is nominal while comparing with the whole budget. But repayment of principal in Nepal is gradually increasing due to increasing budget deficit each year and budget defecit is financed through internal and external loan which are to be paid back in later years.

6.3 Trends in Government Expenditure

Due to the growing demand of public goods and services the government expenditure in absolute terms has been growing successively in each year. It has increased tremendously by 395.75% from Rs. 59579.00 million in the year 1998/99 to Rs. 295363.40 million in 2010/11 with an annual average growth rate of 14.62 percent. The table (6.1) depicts the trends in the classification of government expenditure in terms of current expenditure, capital expenditure and principal repayment expenditure.

Though the Government Expenditure shows the steady and increasing trend in absolute term, percentage of total expenditure to GDP has risen by nominal figure only. In the year 1998/99, total expenditure was 18.05% of GDP which has increased to 23.69% of GDP in the year 2010/11. In an average it is 17.25 percent of the total GDP over the periods under study which can been seen from the table (6.1).

Table : 6.1

Trends in Government Expenditure and its Share on GDP

(Rs. in million)

Fiscal Year	RE[a]	CE[b]	PR[c]	TE[d]	% of TE[d]			% of GDP[e]				
					R.E.[a]	C.E.[b]	P.R.[c]	GDP[e]	RE[a]	CE[b]	PR[c]	TE[d]
1998/99	3194.42	2299.21	464.27	5957.9	53.61	38.59	7.79	33001.8	9.67	6.96	1.40	18.05
1999/00	3557.91	2548.07	521.27	6627.25	53.68	38.44	7.86	36625.1	9.71	6.95	1.42	18.09
2000/01	4583.73	2830.72	569.06	7983.51	57.41	35.45	7.12	41342.8	11.08	6.84	1.37	19.31
2001/02	4886.39	2477.24	643.49	8007.126	61.02	30.93	8.03	43039.6	11.35	5.75	1.55	18.60
2002/03	5209.05	2235.61	955.95	8400.61	62.00	26.61	11.37	46032.5	11.31	4.85	2.07	18.24
2003/04	5555.21	2309.56	1079.49	8944.26	62.10	25.82	12.06	50069.9	11.09	4.61	2.15	17.86
2004/05	6168.64	2734.07	1353.33	10256.04	60.14	26.65	13.19	54848.5	11.24	4.98	2.46	18.69
2005/06	6701.78	2960.66	1426.48	11088.92	60.43	26.69	12.86	61111.8	10.96	4.84	2.33	18.14
2006/07	7712.24	3972.99	1675.23	13360.46	57.72	29.73	12.53	67585.9	11.41	5.87	2.47	19.76
2007/08	9144.69	5351.61	1632.69	16134.99	56.67	33.16	10.15	75525.7	12.10	7.08	2.16	21.36
2008/09	12773.89	7308.90	1883.41	21966.29	58.15	33.27	8.57	90930.9	14.04	8.02	2.07	24.15
2009/10	15101.91	9023.77	1843.23	25968.91	58.15	34.74	7.09	106088.1	14.23	8.50	1.73	24.47
2010/11	17029.54	10784.75	1722.05	29536.34	57.65	36.51	5.83	124642.3	13.66	8.65	1.38	23.69
Average	-	-	-	-	58.36	32.04	9.57	-	11.68	6.59	1.88	17.25
Airthmetic Annual Average Growth Rate	15.33	14.83	12.35	14.62	-	-	-	-	-	-	-	-

From the year 1998/99, public expenditure has been classified as current capital and principal repayment. Hence the figures of previous years classifying expenses as regular and development expenses are not comparable
a refers to Recurrent Expenditure
b refers to Capital Expenditure
c refers to Principal Repayment Expenditure
d refers to Total Expenditure
e refers to Groes Domestic Product.
Source: Economic Survey, FY 2010/11 and 2011/12, MOF, Kathmandu

Table (6.1) shows that recurrent expenditure has heavily increased during the review period. In absolute term, it has risen from Rs. 31944.20 million in 1998/99 to Rs. 170295.40 million in 2010/11 with an annual average growth rate of 15.33. The percentage share gives clear idea of the heavier trend of recurrent expenditure. It is increasing in every fiscal year. In the year 1998/99, the percentage share of recurrent expenditure to total expenditure was 53.61 percentage which has increased to 57.65 percent in the year 2010/11. In an average it claims 58.36 percent of the total expenditure under the study period. This clearly shows that government expenditure is increasing in absolute term to finance more expenditure on current activity.

The percentage share of recurrent expenditure to GDP shows increasing trend. However small fluctuation is seen during the review period. It was as low as 9.68 percent in 1998/99 and that was as high as 13.6 percent in 2010/11. In an average it is 11.68 percent of total GDP with in the study period.

However, capital expenditure of government has increased slowly as compared to recurrent expenditure. In absolute term it has increased during the review period. Though capital expenditure has increased in absolute amount from Rs 22992.10 million in 1998/99 to Rs. 107847.50 million in 2010/11, with an annual average growth rate of 14.83, it shows fluctuating trend during the review period. In the year 2002/03, capital expenditure has decreased to Rs 223506.10 and has again increased to Rs. 10784.75 million in the year 2010/11. The percentage share of capital expenditure to total expenditure shows a continuous decreasing trend. It was as high as 38.59 percent in 1998/99. However, it decreased and reached to 36.51 percent in the final year of the review period.

The percentage share of capital expenditure to GDP also has presented a fluctuation scenario. However, it indicated a upward trend in the recent years of the review period. This shows a little progress of the government to mobilize the resources on capital formation in the economy. Looking at the percentage share of capital Expenditure to GDP it was 6.96 percent in 1998/99 while that has increased to 8.65 percent in the year 2010/11 and stood at 6.59 percent of the total GDP in overage during the study period.

However, principal repayment of internal and foreign loan shows increasing trend during period. It was Rs. 4642.70 million in 1998/99 and has increased by more than four times and reached up to Rs. 17220.5 million in 2010/11 with an annual average growth rate of 12.35%. Percentage share of principal repayment has also increased from 7.79 percent of total expenditure in 1998/99 to 13.20 percent of total expenditure in 2004/05. Then it is decreasing to 5.83 percent of total expenditure in 2010/11. Increasing trend of recurrent expenditure and principal repayment expenditure has left only the little amount for capital expenditure which is the base for growth and development in the economy.

While analyzing the percentage share of principal repayment of internal and external loan to GDP, it was 1.40 percent in 1998/99 while that has decreased to 1.38 percent in the last year of the study period. In average, it is 1.88 percent of the total GDP within the analyzing period. To be more clear, the trends of Recurrent Expenditure, Capital Expenditure, Principal Repayment Expenditure and the Total Expenditure are presented collectively in the graphs pictured in the Appendix-2.

6.3.1 Composition of Recurrent Expenditure

Recurrent Expenditure is the category of the nature of consumption expenditure and therefore it includes recurring type of expenditure. Recurrent Expenditure consists of various components. The main functional components are Constitutional Organs (CO), General Administration (GA) Revenue Administration, (RA), Economic Administration and Planning (EAP), Judicial Administration (JA), Foreign Services (FS), Defence (D), Social Services (SS), Economic Services (ES), Interest Payment (IP) and Miscellaneous (M). These components are presented in the following table.

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Table : 6.2.

Recurrent Expenditure Under Different Heads

(Rs. in million)

Fiscal Year	CO	GA	RA	EAP	JA	FS	D	SS	ES	IP	M	TRE
1998/99	336.20 (1.07)	3615.60 (11.57)	300.50 (8.81)	397.70 (1.27)	275.70 (0.88)	607.40 (1.84)	2994.80 (8.58)	7376.90 (22.60)	2167.90 (6.03)	8723.0 (26.81)	4450.2 (12.24)	31245.90 (100.00)
1999/00	428.40 (1.38)	4070.40 (13.19)	323.50 (1.04)	406.70 (1.31)	276.00 (0.89)	672.60 (2.18)	3482.10 (11.29)	8327.90 (27.00)	2224.80 (7.21)	4820.10 (15.62)	5809.8 (18.83)	30842.30 (100.00)
2000/01	431.10 (1.11)	6258.40 (16.18)	366.40 (0.94)	502.60 (1.29)	317.50 (0.82)	600.30 (1.55)	3813.40 (9.86)	10882.20 (28.14)	1631.1 (4.21)	4697.8 (12.14)	9167.4 (23.70)	38668.20 (100.00)
2001/02	571.00 (1.09)	7140.10 (13.70)	457.10 (0.87)	730.00 (1.40)	440.90 (0.84)	668.50 (1.28)	5264.80 (10.10)	16953.10 (32.53)	5795.10 (11.11)	5570.3 (10.68)	8523.6 (16.35)	52114.50 (100.00)
2002/03	819.20 (1.56)	7335.90 (13.97)	470.50 (0.89)	235.70 (0.44)	437.60 (0.83)	709.7 (1.35)	6168.3 (11.83)	18886.9 (35.98)	5078.5 (9.67)	6621.8 (12.61)	5723.5 (10.90)	52487.00 (100.00)
2003/04	737.20 (1.26)	7325.30 (12.55)	496.60 (0.85)	269.60 (0.46)	449.00 (0.76)	710.2 (1.21)	6629.60 (11.36)	20802.50 (35.67)	5512.80 (9.45)	6543.9 (11.21)	8841.2 (15.15)	58323.90 (100.00)
2004/05	813.90 (1.26)	8226.3 (12.79)	540.8 (0.84)	328.50 (0.51)	504.8 (0.78)	794.20 (1.23)	8580.30 (13.34)	23208.80 (36.11)	7167.80 (11.15)	6218.00 (9.67)	7888.60 (12.27)	64272.00 (100.00)
2005/06	1001.90 (1.43)	9269.50 (13.24)	609.40 (0.87)	330.70 (0.47)	563.40 (0.80)	826.00 (1.17)	9706.00 (13.86)	25382.60 (36.25)	7529.80 (10.75)	6158.70 (8.79)	8626.10 (12.32)	70004.10 (100.00)
2006/07	876.10 (1.13)	11079.00 (14.36)	1001.20 (1.29)	663.30 (0.86)	580.10 (0.75)	846.80 (1.09)	10128.90 (13.13)	29497.60 (38.24)	8384.80 (10.87)	6164.00 (7.99)	7900.50 (10.24)	77122.30 (100.00)
2007/08	1642.9 (1.65)	13941.70 (14.01)	916.60 (0.92)	361.70 (0.36)	673.20 (0.67)	1020.60 (1.02)	10564.90 (10.62)	35073.20 (35.26)	9200.40 (9.25)	6373.70 (6.40)	11678.00 (11.74)	99447.00 (100.00)
2008/09	1418.01 (1.11)	16860.3 (13.19)	1212.10 (0.94)	380.2 (0.29)	811.50 (0.63)	1150.20 (0.90)	13748.40 (10.76)	47437.90 (37.13)	12052.6 (9.43)	8154.20 (6.38)	24513.20 (19.19)	127738.90 (100.00)
209/10	1564.10 (1.03)	19574.60 (12.60)	1468.70 (0.97)	502.70 (0.33)	1051.30 (0.69)	1379.20 (0.91)	16576.0 (10.97)	62394.70 (41.31)	14927.30 (9.88)	9981.30 (6.60)	21599.20 (14.30)	151019.10 (100.00)
2010/11	2408.90 (1.41)	222.9.00 (13.04)	1875.20 (1.10)	1379.70 (0.81)	1125.50 (0.66)	1808.90 (1.06)	17410.30 (10.22)	70541.70 (41.42)	17789.2 (10.44)	12737.10 (7.47)	21009.8 (12.33)	170295.40 (100.00)
Average	1.26	12.36	1.50	0.75	0.76	1.23	11.22	34.43	9.18	10.95	14.58	100.00

CO refers to Constitutional Organ, GA refers to General Administration, RA refers to Revenue Administration EAP refers to Economic Administration and planning, JA refers to Judicial Administration, FS refers to Foreign Services, D refers to Defence, SS refers to Social Services, ES refers to Economic Services, IP refers to Interest payment, M refers to Miscellaneous and TRE refers to Total Recurrent Expenditure. Figure in parenthesis indicates percentage share of heads to the regular expenditure.

Sources: Economic Survey, FY 2010/11 and 2011/12, MOF

Table (6.2) exhibits the composition of recurrent expenditure under different heads. These components have again been divided into different subcomponents, which are not mentioned here in the table. The components: General administration, Revenue Administration, Judicial Administration, Finantial service, Defence, Social Service and Economic Services have been showing increasing trend. The components Constitutional Organ also shows the increasing trend till the year 2002/03. But from the year 2002/03 it has attained fluctuating trend. Reaming components of recurrent expenditure i.e. Economic Administration and Planning. Interest Payment and Miscellaneous show a fluctuating scenario over the years of study.

The parenthesis in the table indicate perecentage share of different heads to total recurrent expenditute. Among its components social service claims a highest amount with in all fiscal years compared to others. This alone claims at an annual average of 34.43 percent, nearly one third of total recurrent expenditure incurred with in the period. Next components with substantial amount are the expenditure on general administration (12.36), defence (11.22) economic services (9.18%), interest payment (10.95%) and miscellaneous (15.58%).

Due to political situation prevalent at the time and increase in defence activities, defence expenses shows increasing trend during the period 1998/99 to 2010/11. It was only Rs. 2994.80 million in 1998/99 which has increased by more than 480 percent to Rs. 17410.30 million in 2010/11.

6.3.2 Composition of Capital Expenditure

Capital Expenditure is the expenditure made by the government in order to expand the productive investment in an economy to accelerate the process of capital formation as well as to increase and improve the quality of human capital. Government capital expenditure comprises Constitutional Organ (CO), General Administration (GA), Revenue Administration (RA), Economic Administration and Planning (EAP), Judicial Administration (JA), Foreign Services (FS), Defence (D), Social Services (SS), Economic Services (ES), Interest Payment (IP) and Miscellaneous (M).

Table : 6.3

Capital Expenditure Under Different Heads

(RS in million)

Fiscal Years	CO	GA	RA	EAP	JA	FS	D	SS	ES	LI	M	TCE
1998/99	76.5 (0.33)	259.9 (1.13)	3.3 (0.01)	2.1 (0.01)	23.3 (0.10)	85.6 (0.37)	171 (0.74)	7495.5 (32.60)	14349.5 (62.41)	15.1 (0.07)	510.2 (2.22)	22992.1 (100.00)
1999/00	34.20 (0.13)	314.30 (1.23)	0.30 (0.0001)	4.80 (0.02)	2.60 (0.01)	102.80 (0.40)	358.10 (1.41)	8638.50 (33.90)	15466.70 (60.70)	39.20 (0.15)	519.20 (2.04)	25480.70 (100.00)
2000/01	19.80 (0.07)	965.80 (3.42)	0.90 (0.0003)	17.40 (0.06)	48.10 (0.17)	12.50 (0.04)	356.20 (1.26)	8489.00 (29.99)	17745.10 (62.69)	10.00 (0.04)	642.40 (2.27)	28307.20 (100.00)
2001/02	11.90 (0.05)	838.00 (3.38)	1.00 (0.0004)	7.60 (0.03)	58.30 (0.24)	3.90 (0.02)	595.00 (2.40)	7927.50 (32.00)	13562.10 (54.74)	12.60 (0.05)	1755.50 (7.09)	24773.40 (100.00)
2002/03	16.80 (0.08)	581.30 (2.60)	1.60 (0.0007)	3.70 (0.02)	36.90 (0.17)	13.10 (0.16)	1213.20 (5.43)	7050.90 (31.54)	12561.00 (56.19)	2.00 (0.01)	875.60 (3.92)	22356.10 (100.00)
2003/04	36.90 (0.16)	578.10 (2.50)	7.30 (0.0003)	8.90 (0.04)	46.80 (0.20)	36.00 (0.16)	1890.40 (8.19)	7135.20 (30.89)	13129.00 (56.85)	55.00 (0.24)	172.00 (0.74)	23095.60 (100.00)
2004/05	38.00 (0.14)	883.60 (3.23)	9.40 (0.03)	24.20 (0.09)	141.30 (0.52)	61.00 (0.22)	2412.60 (8.82)	7940.70 (29.04)	15394.90 (56.31)	0.00	435.00 (1.59)	27340.70 (100.00)
2005/06	96.10 (0.32)	1181.70 (3.99)	52.30 (0.17)	20.30 (0.068)	175.50 (0.59)	14.80 (0.049)	1606.20 (5.42)	10151.80 (34.28)	14797.10 (49.97)	1497.20 (5.05)	13.60 (0.045)	29606.60 (100.00)
2006/07	45.30 (0.11)	4512.00 (11.35)	79.30 (0.19)	26.20 (0.065)	240.60 (0.06)	114.70 (0.28)	1000.80 (2.51)	15529.30 (39.08)	17938.60 (45.15)	20.00 (0.05)	223.10 (0.56)	39729.90 (100.00)
2007/08	96.00 (0.17)	1773.50 (3.311)	191.20 (0.35)	79.80 (0.14	277.10 (0.51)	53.60 (0.10)	809.20 (1.51)	20283.60 (37.90)	22142.70 (41.37)	6903.30 (12.69)	906.20 (1.69)	53516.20 (100.00)
2008/09	84.70 (0.11)	1781.70 (2.43)	313.80 (0.18)	47.20 (0.064)	301.70 (0.41)	35.10 (0.048)	712.50 (0.97)	34056.80 (46.59)	31999.90 (43.78)	934.60 (1.27)	3002.90 (4.10)	73008.90 (100.00)
209/10	71.60 (0.079)	2006.60 (2.22)	392.10 (0.43)	86.80 (0.096)	301.90 (0.33)	86.20 (0.95)	945.40 (1.04)	36495.20 (40.44)	42968.00 (47.61)	3319.80 (3.67)	3563.70 (3.94)	90237.30 (100.00)
2010/11	105.30 (0.097)	1776.20 (1.64)	359.60 (0.33)	169.20 (0.15)	331.80 (0.30)	116.50 (0.10)	1302.50 (1.20)	45591.10 (42.27)	45615.30 (42.29)	8984.60 (8.33)	3495.60 (3.24)	107847.70 (100.00)
Average	0.14	3.26	0.13	0.065	0.27	0.215	3.14	35.42	52.31	2.44	2.57	100.00

CO refers to Constitutional Organ, GA refers to General Administration RA refers to Revenue Administration, EAP refers to Economic Administration and Planning, JA refers to Judicial Administration, FS refers to Foreign Services, D refers to Defence, SS refers to Social Services, ES refers to Economic Services, LI refers to Loan and Investment, M refers to Miscellaneous and TRE refers to Total Recurrent Expenditure. Figure in parenthesis indicates percentage share of heads to the Capital Expenditure.

Source: Economic survey, FY 2010/11 and 2011/12, MOF, Kathmandu.

The table (6.3) shows that there is more or less amount of fluctuations in each component of capital expenditure. The expenditure on economic service claims a higher amount than other components. This is because it comprises subcomponents which hold a substantial share of total capital expenditure. In the fiscal year 1998/99, the expenditure under economic services was Rs 14349.6 million which has increased to Rs 45615.30 million in 2010/11. The highest amount spent under this component is in 2010/11 amounted Rs 45615.30 million. In an average, the share of expenditure on economic services in total capital expenditure was 52.31 percent in the review period.

Likewise, social service expenditure claims second large share in total capital expenditure. The data reflects that overall trend in social service shows the fluctuating trend. However capital expenditure spent on social service has increased not only by a nominal amount but share of social service in total capital expenditure is also increasing. In the fiscal year 1998/99, the percentage share of social service was 32.60 percent while that of economic services was of 62.41 percent. However in the last year of the study under consideration, the share of social service increased to 35.42 percent and that of economic service also increased to 52.31 percent to total capital expenditure.

Expenditure incurred under General Administration is also significant. It claims third large share in Total Capital Expenditure. Expenditure on General Administration was Rs. 259.9 million in 1998/99. The same has increased by more than 6 times during the period 1998/99 to 2010/11 and reached up to Rs. 1776.20 million. Share of Capital Expenditure on General Administration was 1.13 percent in 1998/99 while it has increased and being 1.64 percent at the final year of the study. The highest share of Capital Expenditure on General Administration was 11.35 percent in the year 2006/07.

Similarly, the expenditure made under defence is also important. It claims fourth large share in Total Capital Expenditure. Expenditure on Defence was Rs. 171.00 million in the begining of the study period and the same is Rs. 1302.50 million in the final year. Expenditure on Defence is increasing in every financial year from 1998/99 to 2004/05. It was Rs. 2460.12 million in the year 2004/05 after that it gets decling to Rs. 1302.50 million in the last year of review. The share of capital expenditure on defence is also increasing up to the year 2004/05 then it has been declining as shown in the table. It was 8.82 percent in 2004/05 and the same has decreased to 1.20 percent in the final year of the study.

6.3.3 Composition of Principal Repayment Expenditure

Principal repayment includes the repayment of internal loan and loan raised from external source in the past.

Table : 6.4

Principal Repayment Under Different Heads

(Rs in million)

Fiscal Year	Principal Repayment (PR)	Domestic Loan (DL)	Foreign Loan (FL)	% of PR	
				DL	FL
1998/99	4642.70	1447.40	3195.30	31.17	68.82
1999/00	5212.70	1532.80	3679.90	29.40	70.59

2000/01	5690.60	1190.00	4500.60	20.91	79.08
2001/02	6434.90	1683.60	4751.30	26.16	73.82
2002/03	9559.50	4063.30	5496.20	42.50	57.49
2003/04	10794.90	5029.10	5765.80	46.58	53.41
2004/05	13533.30	7580.10	5953.20	56.01	43.98
2005/06	14264.80	7277.30	6987.50	51.01	48.98
2006/07	16752.30	9213.50	7538.80	54.99	45.00
2007/08	16386.90	8517.50	7869.40	51.97	48.02
2008/09	18834.10	8713.90	10120.20	46.26	57.73
2009/10	18432.30	7689.30	10743.00	41.71	58.18
2010/11	177220.50	6002.40	11218.10	34.85	65.14
Airthmetic Annual Average Growth Rate	10.44	18.70	11.30	-	-

Source: Economic Survey, FY 2010/11 and 2011/12, MOF, Kathmandu.

Table (6.4) reflects that principal repayment expenses are increasing in every subsequent financial year. Repayment under Domestic Loan is increasing from the beginning of the year to the finantial year 2006/07 however, it has been decreasing since 2006/07 up to the final year of the study period. In the beginning of the year of review, it was Rs. 1470.40 million and the same has increased to Rs. 6002.40 million in the final year of the study with an annual average growth rate of 18.70 percent.In the year 2006/07 it was Rs. 9213.50 million which was highest amount in the overal study period. Thus the overal trend shows more or less fluctuations in the repayment under Domestic Loan.

Principal Repayment under foreign loan has shown increasing trend in every finantial year. It was amounted Rs. 3195.3 million in 1998/99 and the same has reached to Rs. 11218.10 million in the last year of the study with an annual average growth rate of 11.30 pesrcent. Above data shows that foreign loan repayment has always been higher than domestic loan repayment except in the years 2004/05 to 2007/08. It shows that larger part of deficit financing is borne by foreign loan.

6.4 Government Revenue

Revenue is the major source of government finance. The principal among them is the government revenue collected through tax and non-tax sources. But limited growth of economy with low level of income as well as the rate of saving in Nepal makes the collection of tax revenue as a difficult task. Besides high taxation often adversely affects the private enterprises and contributes to a decline in the net investment capacity of the economy. Therefore proportion of government revenue in national income stands less than 11 percent in the developing countries whereas it remains as high as 40 percent in the developed countries.

For developing countries like ours, the problems of development are enormous and complex in nature. A government needs income for the performance of a variety of functions and meeting its expenditure. Dalton has defined the revenue in two senses-wider and narrow senses. In a broad sense, it includes the income and receipts, irrespective of their sources and nature, which the government happen to obtain during any period of time. In the narrow sense, it includes, only those sources of income of the government which are described a revenue resources (Lekhi, 2008).

So, it is widely recognized that government revenue are the major sources of resources for financing the public expenditure in developing countries. Nepal has also realised this fact. Therefore, Nepal has been making constant effort to increase the revenue in her every budget.

6.4.1 Trend of Government Revenue

Table (6.5) shows the trends in government revenue during the period of 1990/91 to 2010/11.

Table : 6.5.

Trend of Total Revenue

(Rs in million)

Fiscal Year	GDP	Total Revenue	% of GDP	% Change in Total Revenue
1990/91	116127	10729.50	9.23	-
1991/92	144933	13512.70	9.32	25.93
1992/93	165350	15148.40	9.16	12.10
1993/94	191596	19580.90	10.21	29.26
1994/95	209976	24605.10	11.71	25.71
1995/96	239388	27893.10	11.65	13.50
1996/97	269570	30373.50	11.26	8.89
1997/98	289798	32937.90	11.36	8.44
1998/99	330018	37251.30	11.28	13.09
1999/00	366251	42893.70	11.72	15.15
2000/01	413428	48893.80	11.82	13.99
2001/02	430396	50446.60	11.72	3.17
2002/03	460325	54538.90	11.84	11.47
2003/04	500699	62331.00	12.44	10.85
2004/05	548485	70122.70	12.78	12.50
2005/06	611118	72281.90	11.82	3.07
6006/07	675859	87712.10	12.97	21.34
2007/08	755257	107622.50	14.24	22.69
2008/09	909309	143474.50	15.77	33.31
2009/10	1060881	179945.89	16.96	25.42
2010/11	1246423	199818.70	16.03	11.04
Average	-	-	12.13	-
Airthmetic Annual Average Growth Rate	-	-	-	16.04

Source : Economic Survey, FY 2010/11 and 2011/12, MOF, Kathmandu.

Table . (6.5) reflects the continuous increasing trend of total revenue. In absolute term it has increased from Rs. 10729.50 million in 1990/91 to Rs 199818.70 million in the year 2010/11 with an annual average growth rate of 16.04 percent.The percentage of total revenue to GDP gives clear idea of the increasing trend of government revenue Government revenue. was 9.23% of nominal GDP in 1990/91 and has increased to 16.03% of nominal GDP in 2010/11. On average, it covers 12.13 of the total GDP over the period under study. Though the government revenue has increased in each finantial year compared to the previous year in absolute term, but the increase in percentage terms is irregular during the period of the study.

6.4.2 Share of Tax and Non-tax revenue in total revenue and GDP

In the Nepalese Economy, tax revenue has contributed more than non-tax revenue in total revenue and GDP as shown in Table (6.6).

Table : 6.6

Contribution of Tax and Non-Tax Revenue

Fiscal Year	TR[a]	GDP	Tax Revenue			Non-Tax Revenue		
			Amount	% of TR[b]	% of GDP	Amount	% of TR[b]	% of GDP
1990/91	10729.50	116127	8176.30	76.20	7.04	2553.20	23.79	2.19
1991/92	13512.70	144933	9875.60	73.08	6.81	3637.10	26.91	2.50
1992/93	15148.40	165350	11662.50	76.98	7.05	3485.90	23.01	2.10
1993/94	19580.90	191596	15371.50	78.50	8.02	4209.40	21.49	2.54
1994/95	24605.10	209976	19660.00	79.90	9.36	4945.10	20.09	2.35
1995/96	27893.10	239388	21668.00	77.68	9.05	6225.10	22.31	2.60
1996/97	30373.50	269570	24424.30	80.41	9.06	5949.20	19.58	2.20
1997/98	32937.90	289798	25939.80	78.75	8.95	6998.10	21.24	2.41
1998/99	37251.30	330018	28752.90	77.18	8.71	8498.40	22.81	2.57
1999/00	42893.70	366251	33152.10	77.28	9.05	9741.6	22.71	2.65
2000/01	48893.80	413428	38865.00	79.48	9.44	10028.80	20.51	2.42
2001/02	50446.60	430396	3933.60	77.96	9.13	11116.00	22.03	2.58
2002/03	54538.90	460325	40896.00	74.98	8.88	13642.90	25.01	2.96
2003/04	62331.00	500699	48173.00	77.28	9.62	14158.00	22.71	2.82
2004/05	70122.70	548485	54104.70	77.15	9.86	16018.00	22.84	2.92
2005/06	72281.90	611118	57430.40	79.45	9.39	14851.50	20.54	2.43
2006/07	87712.10	675859	71126.70	81.09	10.52	16585.40	18.90	2.45
2007/08	107622.50	755257	85155.50	79.12	11.27	22467.00	20.87	2.97
2008/09	143474.50	909309	117051.90	86.85	12.87	26422.60	18.41	2.90
2009/10	179945.89	1060881	156294.90	86.46	14.73	23650.90	13.14	2.22
2010/11	199818.70	1246423	172777.60	86.47	13.86	27041.10	13.53	2.16
Average	-	-	-	78.78	10.09	-	21.06	2.64

TR[a] refers to Total Revenue (Tax Revenue plus Non Tax Revenue)

TR[b] refers to percentage of Total Revenue.

Source : Economic Survey, 20010/11 and 11/12, MOF, Kathmandu.

Both tax and non-tax revenue has increased in absolute term during the study period. Tax revenue has increased to Rs. 1727760 million in 2010/11 from Rs. 8176.30 million in 1990/91.

The percentage of tax revenue to total revenue during the study period shows more or less same pattern. There is only small changes in the share of tax revenue in total revenue during 1990/91 to 2006/07 then it gets increasing trend. The share of non tax revenue has also small fluctuations up to the period 2008/9 then it goes decreasing in recent period. Thus changes in the share of tax and non-tax revenue shows the fluctuating trend.

In the fiscal year 2009/10 the percentage share of tax revenue to total revenue is as highest as 86.85 percent while it was as lowest as 73.08 percent in the year 1991/92. The percentage of tax revenue to GDP has presented a fluctuating scenario. It was as low as 6.81 percent in the fiscal year 1991/92 to as high as 14.73 percent of GDP in the fiscal year 2010/11 during the review period.

During the study period, non tax revenue has presented a fluctuating scenario. The percentage of non-tax revenue to total revenue lies between 13.14 percent to 26.91 percent in the review period. The percentage of non-tax revenue to GDP has been as low as 2.10 percent in the year 1992/93. Coming to the fiscal year 2002/3 of the study it has been increased to as high as 2.96 percent of GDP where as it is 2.16 percent in the final year of the review. To be more clear, the trends of Tax Revenue, Non-Tax Revenue and the Total Revenue are collectively presented in the graphs pictured in the Appendix-3.

6.4.3 Composition of Tax Revenue

Tax revenue comprises customs, tax on consumptoion and product of goods and services, land revenue and registration, and tax on property, profit and incomes. Tax is a major source of government revenue. It contributed almost 86% to the total revenue.

Table : 6.7

Tax Revenue Under Different Heads

(Rs in million)

Fiscal Year	Customs	Tax on consumption and product of goods and services	Land revenue and registration	Tax on property profit and income	Total tax revenue
1990/91	3044.3	3763.4	538.7	829.7	8176.3
1991/92	3358.9	4921.5	636.1	959.1	9875.6
1992/93	3945.0	5681.3	754.9	1281.3	11662.5
1993/94	5255.0	7261.2	833.2	2022.1	15371.5
1994/95	7018.1	8792.6	937.7	2911.6	19660.0
1995/96	7327.4	9684.7	1066.6	3589.3	21668.0
1996/97	8309.1	10775.2	1015.4	4324.6	24424.3
1997/98	8502.2	11249.7	1004.2	5183.7	25939.8
1998/99	9517.7	11710.0	1003.2	6512.9	28752.9
1999/00	10813.3	13387.3	1015.9	7935.6	33152.1
2000/01	12552.1	16153.6	612.9	9546.5	38865.0
2001/02	12650.0	16074.3	1131.8	9465.7	39330.6
2002/03	12783.2	17230.9	607.8	10274.1	40896.0
2003/04	15554.8	20705.6	1697.5	10215.1	48173.0
2004/05	15701.6	25331.3	1799.2	11272.6	54104.7
2005/06	15344.0	288118.3	2181.1	11787.0	57430.4
2006/07	16707.6	35438.8	2253.5	16726.8	71126.7
2007/08	21062.4	41005.3	2940.7	20147.0	85155.5
2008/09	26792.9	55938.3	5223.3	29097.4	117051.9
2009/10	35150.8	79394.1	5511.1	36238.9	156294.9
2010/11	35711.6	88411.00	3572.5	45082.6	172777.6
Airthmetic Annual Average Growth Rate	14.01	17.57	21.61	24.17	-

Source : Economic Survey, FY 2010/11 and 2011/12, MOF, Kathmandu.

Table (6.7) shows the growth of different components of tax revenue during the study period. The revenue from customs and tax on consumption and production of goods and services shows the continuous growing trend. It has increased from Rs. 3044.3 million in 1990/91 to Rs. 35711.6 million in the year 2010/11. Tax on consumption and product of goods and services was Rs. 3763 million in 1990/91. However, it is increased and reached to Rs. 88411.00 in the year 2010/11.

By the same way, revenue from land and registration in absolute term has moved from Rs. 538.7 million in 1990/91 to Rs. 3572.5 million in 2010/11. Revenue from tax on property, profit and income has increased from Rs. 829.7 million in 1990/91 to Rs. 45082.6 million in 2010/11 with an annual average growth rate of 24.17 percent. This has downward trend in the year 2001/02 and 2003/04.

Table : 6.8

Percentage of Tax Revenue Under Different Heads

Fiscal year	Custom		Tax on consumption and production[a]		Land rev and reg.[b]		Tax on prop. profit[c]	
	% of	% of	% of	% of	% of	% of	% of	% of

	TR[d]	TR[e]	TR[d]	TR[c]	TR[d]	TR[e]	TR[d]	TR[e]
1990/91	37.23	28.37	46.02	35.07	6.58	5.02	10.14	7.73
1991/92	34.01	24.85	49.83	36.42	6.44	4.70	9.71	7.09
1992/93	33.82	26.04	48.71	37.50	6.47	4.98	10.98	8.45
1993/94	34.18	26.83	47.23	37.08	5.42	4.25	13.15	10.32
1994/95	35.69	28.52	44.72	35.73	4.76	3.81	14.80	11.83
1995/96	33.81	26.26	44.69	34.42	4.92	3.82	16.56	12.86
1996/97	34.01	27.35	44.11	35.47	4.15	3.64	17.70	14.23
1997/98	32.77	25.81	43.36	34.15	3.87	3.04	19.98	15.73
1998/99	33.10	25.54	40.72	31.43	3.48	2.69	22.65	17.48
1999/00	32.61	25.28	40.38	31.21	3.06	2.72	23.93	18.50
2000/01	32.29	25.67	41.56	33.03	1.57	1.25	24.56	19.52
2001/02	32.16	25.07	40.86	31.86	2.87	2.24	24.06	18.76
2002/03	31.25	23.43	42.13	31.59	1.48	1.11	25.12	18.83
2003/04	32.28	24.35	42.98	33.21	3.52	2.72	21.20	16.38
2004/05	29.02	22.39	46.81	36.12	3.32	2.56	20.83	16.07
2005/06	26.71	21.22	48.96	38.90	3.79	3.01	20.52	16.30
2006/07	23.48	19.04	49.82	40.40	3.16	2.56	23.51	19.07
2007/08	24.43	19.57	48.15	38.10	3.45	2.73	23.65	18.72
2008/09	22.88	18.67	47.78	38.98	4.46	3.64	24.85	20.28
2009/10	22.49	19.53	50.79	44.12	3.52	3.06	23.18	20.13
2010/11	20.66	17.87	51.17	44.24	2.06	1.78	26.09	22.56
Average	30.41	23.02	45.75	36.14	3.92	3.11	19.86	15.80

'a' refers to tax on consumption and product of goods and services

'b' refers to land revenue and registration

'c' refers to tax on property, profit and income

'd' refers to percentage of tax revenue

'e' refers to percentage of total revenue

Source : Economic Survey, FY 2010/11 and 2011/12, MOF, Kathmandu.

Table (6.8) presents the percentage share of all components in tax revenue and total revenue. The percentage of customs to tax revenue and total revenue were 27.23 and 28.37 percent in the year 1990/91. Coming to the final year of the review period the percentages have been decreased to 20.66 and 17.87 percent respectively.

The percentages of tax on consumption and product of goods and services to tax revenue and total revenue were contributed more among all components. It was 46.02 percent and 35.07 percent respectively in the year 1990/91 and it has contributed 51.17 percent and 44.24 percent of tax revenue and total revenue respectively in 2010/21. However, there is fluctuating scenario during the review period.

Similarly the percentage of land revenue and registration to tax revenue and total revenue were contributed less among all components. The percentage were 6.58 and 5.02 percent in the year 1990/91 and in the fiscal year 2010/11, the percentage have been decreased to 2.06 and 1.78 percent respectively.

The percentage of tax on property, profit and income show the continuous increasing trend after 1991/92 to 2002/3, however after 2002/03 the percentage show downward trend. Higher rate of increase in the revenue from tax on consumption and production of goods and services is attributable to the increasing revenue from VAT. Revenue from VAT was only Rs. 2026.1 million in 1990/91 which has risen to Rs38443.10 million in 2010/11.

6.4. 4 Composition of Non-Tax Revenue

Non-Tax revenue comprises charges, fee fines and forfeiture receipts from sales of commodities and services, dividend royalty and sale of fixed assets principal and interest payment and miscellaneous items. Its contribution to total revenue has been less significant in comparision to the tax revenue.

Table : 6.9

Non-Tax Revenue Under Different Heads

(Rs. in million)

Fiscal Year	Charges, fees fines and forfeiture	Receipts from sales of commodities and services	Dividend	Royalty and sales of fixed assets	Principals and interest payments	Miscellaneous items	Total non-tax revenue
1990/91	1012.6	511.40	459.50	27.90	498.00	43.80	2553.20
1991/92	1106.3	765.00	644.40	137.8	971.40	12.20	3637.10
1992/93	333.40	889.50	755.50	59.90	1431.10	16.50	3485.90
1993/94	248.00	1270.00	775.70	90.40	1811.00	14.30	4209.40
1994/95	207.10	1388.30	1060.10	196.90	2083.10	9.60	4945.10
1995/96	286.10	1673.30	1363.00	67.80	2818.80	16.10	6225.10
1996/97	270.80	1199.60	1134.40	447.90	2220.70	75.80	5949.20
1997/98	329.60	2255.50	1311.00	565.20	2461.10	75.70	6998.10
1998/99	336.10	2146.60	1782.80	202.30	3927.50	102.80	8498.40
1999/00	336.30	2425.90	2507.50	563.30	3751.00	104.60	9741.60
2000/01	386.70	2728.00	2336.50	949.60	3497.20	130.80	10028.80
2001/02	518.80	2611.10	2513.90	723.90	3109.50	168.80	11116.00
2002/03	579.60	3063.00	2497.60	1945.50	2464.30	3092.80	13642.90
2003/04	1202.50	3497.00	2661.10	1465.00	3507.10	1825.30	14158.00
2004/05	1359.90	3849.90	4589.90	1931.40	2714.30	1572.60	16018.00
2005/06	1927.70	3932.30	3394.80	1196.80	3251.30	1148.70	14851.50
2006/07	1945.40	4776.80	4937.70	1091.80	2085.70	1748.10	16585.40
2007/08	2559.40	4893.10	5025.90	5773.60	3440.10	774.80	22467.00
2008/09	6180.40	5255.30	7197.40	2541.70	4616.90	630.90	26422.60
2009/10	4985.40	5587.20	7352.00	2948.40	2401.10	376.80	23650.90
2010/11	10192.10	1610.20	8624.47	2660.10	2632.90	1321.20	27041.10
Airthmetic Average Annual Growth Rate	21.77	11.60	18.18	80.86	14.49	88.92	-

Source: Economic Survey FY 2010/11 and 2010/12 MOF, Kathmandu.

Table(6.9) exhibits the growth of components of non tax fees, fines and forfeiture has decreased from Rs. 1012.6 millionin 1990/91 to Rs. 579.6 million in 2002/03, however this trend broken down from 2003/04 and attained increasing trend upto 2010/11 as shown in the table.

Receipts from sales of commodities and services have moved up from Rs 511.4 million in 1990/91 to Rs. 5,587.2 millionin 2009/10 but in the year 2010/11 it is amounted as Rs. 1610.20 million.

Similarly revenue from dividend has risen from Rs. 495.5 million in 1990/91 to Rs. 2513.9 millions in 2001/02 then it decreased and being Rs. 2497.6 million in 2002/03 there after, it has increased up to Rs. 4589.9 million in the year 2004/05 then it was Rs. 3394.8 million in 2005/06. However, it has been accelerated from the year 2006/07 to 2010/11 provided that attained fluctuation trend.

In the case of Royalty and sales of fixed assets, its contribution was Rs. 27.90 million in 1990/91 and moved up to Rs. 2660.10 million in 2010/11 with an annual average growth rate of 80.86 percent.

Likewise non-tax revenue form principal and interest payment in absolute term reached to Rs. 2632.9 million in the year 2010/11 however it was Rs. 498 million in 1990/91 and attained the trend of ups and down during the interval period.

In the same fashion, revenue from miscellaneous items has excessively moved from Rs. 43.8 million in 1990/91 to Rs. 1321.2 million in the year 2010/11 with an annual average growth rate of 88.92 percent however, it has passed through very fluctuation path.

Table : 6.10

Percentage distribution of Non-tax Revenue Under different heads.

Fiscal Year	Charges Fees[a]		Receipts From[b]		Dividend		Royalty and Sal[c]		Principal and Int[d]		Miscel[e]	
	% of NTR[f]	% of TR[g]	% of NTR[f]	% of TR[g]	% of NTR[f]	% of TR[g]	% of NTR[f]	% of TR[g]	% of NTR[f]	% of TR[g]	% of NTR[f]	% of TR[g]
1990/91	39.6	9.43	20.02	4.76	17.99	4.28	1.09	0.26	19.50	4.64	1.71	0.40
1991/92	30.41	8.18	21.03	5.66	17.71	4.76	3.78	1.01	26.70	7.18	0.33	0.090
1992/93	9.56	2.20	25.51	5.87	21.67	4.98	1.71	0.39	41.05	9.44	0.47	0.10
1993/94	5.89	1.26	30.17	8.38	18.42	3.96	2.14	0.46	43.02	9.24	0.33	0.073
1994/95	4.18	4.18	28.07	5.64	21.43	4.30	3.98	0.80	42.12	8.46	0.19	0.039
1995/96	4.59	4.59	26.87	5.99	21.89	4.88	1.08	0.24	45.28	10.10	0.25	0.057
1996/97	4.55	4.55	30.24	3.94	19.06	3.73	7.52	1.47	37.32	7.31	1.27	0.024
1997/98	4.70	4.70	32.23	6.84	18.73	3.98	8.07	8.07	35.16	7.47	1.08	0.22
1998/99	3.95	0.90	25.25	5.76	20.97	4.78	2.38	0.54	46.21	10.54	1.10	0.275
1999/00	3.45	0.78	24.93	5.6	25.74	5.84	5.78	1.31	38.50	8.74	1.07	0.243
2000/01	3.85	0.79	27.20	5.57	23.29	4.77	9.46	1.94	34.87	7.15	1.30	0.267
2001/02	4.66	1.02	23.48	5.17	22.61	4.98	6.51	1.43	27.97	6.16	14.74	3.24
2002/03	4.24	1.06	22.45	5.61	18.30	4.57	14.26	3.56	18.06	4.51	22.66	5.67
2003/04	8.49	1.92	24.69	5.61	18.79	4.26	10.34	2.35	24.77	5.62	12.89	2.92
2004/05	8.48	1.93	24.03	5.49	28.65	6.54	12.05	2.75	16.94	3.87	9.81	2.24
2005/06	12.97	2.66	26.47	5.44	22.85	4.69	8.05	1.65	21.89	4.49	7.73	1.58
2006/07	11.72	2.21	28.80	5.44	29.77	5.62	6.58	1.24	12.57	2.37	10.53	1.99
2007/08	11.39	2.37	21.77	4.54	22.37	4.66	25.69	5.36	15.31	3.19	3.44	0.71
2008/09	23.39	4.30	19.88	3.66	27.23	5.01	9.61	1.77	17.47	3.21	2.38	0.43
2009/10	21.07	2.77	23.62	3.10	31.08	4.08	12.46	1.63	10.15	1.33	1.59	0.20
2010/11	37.69	5.10	5.95	8.05	31.89	4.31	9.83	1.33	9.73	1.31	4.88	0.66
Average	12.32	3.18	24.4	5.24	22.87	4.71	7.73	1.88	27.83	6.01	4.71	1.05

'a' refers to charges, fees, fines and forfeiture, 'b' refers to receipt from sales of commodities and services, 'c' refers to royalty and sales of fixed assets, 'd' refers to principals and interest payment, 'e' refers to miscellaneous items, 'f' refers to Non-Tax revenue

Source: Economic survey, FY 2010/11 and 2011/12, MOF, Kathmandu.

The table(6.10) shows the percentag of charges, fees, fines and forfeitures to non tax revenue and total revenue were 39.66 and 9.43 in the year 1990/91. However, the percentage have been decreased to 37.69 and 5.10 percentage respectively in the year 2010/11 while they were minimum 3.45 and 0.78 percents in the year 1999/00. Thus they shows a fluctuation scenario during the review period.

The percentage share of receipt from sale of commodities and services shows also a fluctuation in the review period. Its percentage shares to non tax revenue and total revenue in the year 1990/91 was 20.02 and 4.76 respectively. The percentage share to tax revenue has decreased to 5.95 percent while the percentage share to total revenue has increased to 27.20 percent in the final year of the study period.

Similarly the percentage shares of dividend in non tax revenue and total revenue were 17.99 and 4.28 percentage in 1990/91 however it increased to 31.89 and 4.31 percentage respectively in the last year of the study period.

Likewise, the percentage shares of royalty and sales of fixed assets in non tax revenue and total revenue have been increased from 1.09 and 0.26 percent in 1990/91 to 9.83 and 1.33 percent respectively in the year 2010/11. Although the highest shares were 25.69 and 8.07 percent in the year 2007/08 and 1997/98 respectively.

In the same fashion, the percentage shares of principals and interest payment has decreased from 19.50 and 4.64 percent in 1990/91 to 9.73 and 1.31 percent in 2010/11. However the highest shares were 45.28 and 10.54 in the year 1995/96 and 1998/99 respectively.

Similarly the shares of miscellaneous items have been increased from 1.71 and 0.40 percent in the year 1990/91 to 4.88 and 0.66 percent respectively in the final years of the study period. However their were highest shares as 22.66 and 5.66 percents respectively during the study period.

6.5 Budgetary Deficit and Source of Financing

The scarcity of adequate internal resource has been the main constraint in the realization of the budgetary deficit in Nepal. The general trend is the growing resource gap in the Nepalese fiscal system. Every year capital expenditure as well as recurrent expenditure is increasing continuously but revenue resources of the government are not increasing to cope up with the pace of expenditure. So defict financing is the common phenomenon of every budget in Nepal.

After the restoration democracy in Nepal (1990) the amount of deficit financing is increasing due to the increase in many governments sector activities, such as administration, large number of cabinet number increase in the number of ministries and other social welfare activities as well.

6.5.1 Trends in Overall Deficit and Budget Deficit

Overall budget degicit is the difference between total expenditure and total revenue, while budget deficit is defined by the difference between the total expenditure and total receipts. The trends in the overall defecit and budget defecit have collectively shown in the following table.

Table : 6.11

Trend of Fiscal Deficit

Fiscal Year	Overall Deficit	Budget Deficit

	Amount	% of TE[a]	% of CE[b]	% of GDP[c]	Amount	% of TE[a]	% of CE[b]	% of GDP[c]
1990/91	12820.3	54.43	-	11.03	11190.30	47.51	-	9.63
1991/92	12905.50	48.85	-	8.90	11374.30	43.05	-	7.84
1992/93	15749.30	5.97	-	9.52	12475.40	40.37	-	7.54
1993/94	14016.50	41.71	-	7.31	11622.90	34.59	-	6.06
1994/95	14454.90	37.00	-	6.80	1.517.80	26.92	-	5.00
1995/96	18649.30	40.06	-	7.79	13824.2	29.70	-	5.7
1996/97	20350.20	40.11	-	7.02	14361.9	28.31	-	5.32
1997/98	23180.40	41.30	-	7.02	17777.8	31.66	-	6.13
1998/99	22327.70	37.47	97.11	6.09	17991.10	30.19	78.24	5.45
1999/00	23378.8	35.27	91.75	5.65	17667.10	26.65	69.33	4.82
2000/01	3.941.30	38.75	109.30	7.18	24187.90	30.29	85.44	5.85
2001/02	29625.60	36.99	119.59	6.88	22939.40	28.64	92.60	5.32
2002/03	29467.20	35.07	131.80	6.40	18128.10	21.57	81.08	3.93
2003/04	27111.60	30.31	117.38	5.41	15828.2	17.69	68.53	3.16
2004/05	32437.70	31.62	118.64	5.91	18046.5	17.59	66.00	3.29
2005/06	38607.30	34.81	130.40	6.31	24779.8	22.34	83.69	4.05
2006/07	45892.50	34.34	115.51	6.79	30091.7	22.52	75.74	4.45
2007/08	53727.40	33.29	100.39	7.11	33406.7	20.70	62.42	4.42
2008/09	76187.50	34.68	104.23	8.37	49804.70	22.67	68.14	5.47
2009/10	79743.21	30.70	88.37	7.51	41197.21	15.86	45.65	3.88
2010/11	95544.7	32.34	88.59	7.66	49622.50	16.80	46.01	3.98
Average	-	38.07	108.69	7.27	-	25.68	70.99	5.29
Airthmetic Annual Average Growth Rate	11.40	-	-	-	8.20	-	-	-

'a' refers to percentage of Total Expenditure

'b' refers to percentage of Capital Expenditure

'c' refers to percentage of Gross Domestic Product

Source: Economic survey, 2010/11 and 2011/12, MOF, Kathmandu.

Table (6.11) exhibits the continuous growing trend of overall deficit except the years 1993/94, 1994/95, 2001/02, 2002/03 and 2003/04. In the fiscal year 1990/91 the deficit was Rs. 12820.30 million while coming to the final year of the study it has grown to Rs. 95544.70 that is 7.45 times greater than the first year of the study period. The growth rate of overall Budget defiit with in the overall study period covers the rate of 11.40 percent which is quiet higher than budgetary deficit seen as 8.20 percent over the period of the review. The percentage of overall deficit to GDP, however shows a fluctuciting trend. In the fiscal year 1990/91 the percentage is as highest as 11.03 percent where as in the year 2003/04 it was lowest as 5.41 percent. The percentage of overall defecit to the capital expenditure has also presented the fluctuating scenario, however it indicated on upward. In the year 1998/99, the ratio of budget defecit was 97.11 percent of capital expenditure where as it has risen to 104.23 percent in 2008/09 and then it is declined to 88.59 percent in the year 2010/11. This shows that in the recent year deficit financing is increasing and government revenue is even not sufficient for financing its capital expenditure and repayment of principal. Deficit financing is more than its capital expeneiture and expended on consumption by the government.

In the same way, budget deficit also shows growing trend. The deficit in the budget was Rs 11190.30 million in the fiscal year 1990/91 while it has increased by 4.43 times and reached at Rs. 49622.50 million in the year 2010/11 with an annual average growth rate of 8.20. The percentage of budget deficit to GDP also shows a fluctuating trend. It has declined from 9.63 percent in the fiscal year 1990/91 to 3.98 percent in the last fiscal year of the study. To be more clear, the trends of Overall and Budget Deficit have been presented collectively in the graphs mentioned in the Appendix-4.

6.5.2 Financing of the Budgetary Deficit

Loans both internal and external constitutes the major portion of financing of deficit in Nepal. The remaning protions are financed through foreign grants, mint and the use of cash balance. However, foreign grants are not included in the deficit finance, rather it is included in the receipts of the government. In overall, it can be said that the difference in government expenditure and revenue is met through foreign grants and the deficit financing.

External foreign sources of deficit financing include assistance, particularly loans and grants, while internal sources include internal loan along with borrowing and cash surplus.

Nepal has been receiving substantial external support in its development endeavors. Nepal receives both grants and loans under bilateral and multilateral assistance. Nepal has also made a substantial progress in mobilizing its own resources and government also take loan from internal sources. External and internal sources of budget deficit are presented in table and figure below.

Table : 6.12

Deficit Budget and Sources of Financing

Fiscal Year	Budget Deficit	External sources (Foreign loan)				Internal sources (Including cash balance)			
		Amount	% of BD	% of CE	% of TE	Amount	% of BD	% of CE	% of TE
1990/91	10655.1	6256.70	58.72	-	26.56	4398.40	41.28	-	18.67
1991/92	11261.70	6816.90	60.53	-	25.80	4444.80	39.47	-	16.82
1992/93	11956	6920.90	57.89	-	22.39	5035.10	40.36	-	16.29
1993/94	11622.90	9163.60	78.84	-	27.27	2459.40	21.15	-	7.32
1994/95	10517.80	7312.30	69.52	-	18.72	3235.40	30.76	-	8.28
1995/96	13824.20	9463.90	68.54	-	20.33	4360.30	31.54	-	9.36
1996/97	14361.90	9043.60	62.96	-	17.82	5318.30	37.03	-	10.48
1997/98	17777.80	11054.50	62.18	-	19.69	6723.30	37.81	-	11.98
1998/99	17991.10	11852.40	65.87	51.54	19.89	6139.00	34.12	26.70	10.30
1999/00	17667.10	11812.20	66.85	46.35	17.82	5854.80	33.13	22.97	8.83
2000/01	24187.90	12044.00	49.79	42.54	15.08	12144.10	50.20	42.90	15.21
2001/02	22939.40	7698.70	33.56	31.07	9.61	15241.90	66.44	61.52	19.03
2002/03	18128.10	4546.40	25.07	20.33	5.41	11890.80	65.59	53.18	14.15
2003/04	15828.20	7629.00	48.19	33.03	8.52	8199.20	51.80	35.50	9.16
2004/05	18046.50	9266.10	51.34	33.89	9.03	8780.40	48.56	32.11	8.56
2005/06	24779.80	8214.30	33.14	27.74	7.40	16565.30	66.85	55.95	14.93
2006/07	30091.70	10053.50	33.40	25.30	7.52	20038.20	66.59	50.43	14.99
2007/08	33406.70	8979.90	26.88	16.77	5.56	24426.80	73.11	45.64	15.13
2008/09	49804.70	9968.90	20.01	13.63	4.53	39835.80	79.98	54.50	18.13
2009/10	41197.21	11223.40	27.24	12.43	4.32	29974.00	72.75	33.21	11.54
2010/11	49622.50	12075.60	24.33	11.19	4.08	37546.70	75.66	34.81	12.71
Average	-	-	48.79	28.13	14.15	-	47.49	42.26	12.95
Airthmetic Annual Average Growth Rate	7.40	-	-	-	-	21.83	-	-	-

BD refers to Budget Deficit or Total Deficit

CE refers to Capital Expenditure

TE refers to Total Expenditure

Source: Economic Survey, FY 2010/11 and 2011/12, MOF, Kathmandu.

Table (6.12) shows the amount of budget deficit has been growing continuously. In the fiscal year 1990/91 the deficit was Rs. 10655.10 million while coming to the final year of the study the deficit has grown to Rs. 49622.50 million that is 4.65 times greater than the first year of the review period.

Table (6.12) also exhibits that a major portion of deficit has been financed through external loans until the year 1999/00 from the initial year. There after the contribution of internal sources is more significant than external sources for financing the deficit. External loan financed as high as 78.84 percent of budget deficit in the fiscal 1993/94. However it has declined as low as 20.01 percent of deficit budget in the year 2008/09 and it is contributed 24.33 percent of budget deficit in 2010/11. In the fiscal year 1990/91, the external source of financing of budget deficit was 26.56 percent of the total expenditure which has decreased to 4.08 in 2010/11. However coming to the recent periods the share of external source has declined whereas that of internal source in budget deficit has risen.

Table (6.12) further shows that the account of internal sources presents low performance as compared to the external sectors assistance in the economy until the year 1999/00. However it has accelerated progressively from 1999/00 to 2010/11. The contribution of internal borrowing plus cash surplus was 41.28 percent of budget deficit in the fiscal year 1990/91. It has increased to as high as 79.98 percent of budget deficit in the year 2008/09 and in the year 2010/11 it has contributed to 75.66 percent of total budget deficit. However it has decreased to as low as 21.15 percent of budget deficit in the financial year 1993/94. Furthermore, the share of internal source of financing the deficit revealed the fluctuating trend during the study period.

The trend in the government budgetary operation demonstrates that the budget deficit has been widening almost every year during the review period. Causes of deficit are also quite clear from the above analysis of the trend of government revenue and expenditure. The trend shows that the trend of government expenditure has been higher than the level of revenue including foreign grants. The gap between revenue sources and total expenditure has widened significantly during the review period. It only demonstrates the fact that the government has not been able to raise resources to meet the growing expenditure. This means government has been lying beyond its means.

Of the three major sources of revenue, tax revenue contributes the most to the total revenue of the country. Other sources are non-tax revenue and foreign grants. When expenditure is analysed, Recurrent Expenditure could not be controlled by government as compulsion of increment in employee's salary, among others, together with the expansion of government machinery leads capital expendirure to increase every year. Capital expenditure has also been increasing, however, relatively less than that of regular expenditure because of the compulsion of expanding infrastructural facilities, social services, economic services, etc. It is indeed the economy of Nepal is heavily depending up on the foreign assistance, particularly loan and grant. Therefore, we can conclude that the foreign assistance plays a significant role in Nepalese economy. To be more clear, the trends of the sources of Deficit Budget have been presented collectively in the graphs pictured in the Appendix-5.

6.5.3 Pattern of Deficit Financing

Deficit Financing, in the context of Nepal mainly includes the financing by external sources and that financed by internal sources. Infact, the most portion of the development expenditure has been financed by the foreign sources: grants and loans, almost in every fiscal year. It has been a general phenomenon with no resources of its own to contribute to the deficit and increasing development expenditure. Private sector has not been contributing to a desirable extent and therefore publish sectors remains as the sole promoter for generating resources and there by to under take public Investment. Deficit financing is neither good nor bad in itself it all depends upon its uses. If restored to within limits and for productive purposes, it may be non-inflationary. If goes beyond this limit and used for consumption purposes, it is likely to lead the inflation (Sing, 1982).

6.5.3.1 Financing by External Sources

External sources have been playing a crucial role toward fulfilling the Nepalese aspiration of development and also strengthing the balance of payment situation in the country. "In a country like ours which is unable to fulfill the necessities of economic development only from the internal resources, it is usual to have the necessity and importance foreign aid". (Budget speech, 1999:5)

The foreign assistance in Nepal comes either as loans or as grants. The contribution of foreign loan in the Nepalese economy has been relatively higher as to foreign grants during 1990/91-2010/11. At that time more than 50 percent of total foreign assistance has been coming through loans. The magnitude of foreign loan however, is declining throughout the review period where as that of grant has been increasing. As a percentage of capital expenditure both the foreign loan and grant exhibit a fluctuating trend.

Nepal receives foreign loan from both the bilateral and multilateral, sources. Foreign loan has become the major component to finance the overall development of the country since the restoration of democracy. Multilateral loan has been playing a dominant role in the composition of foreign loan in Nepal. .

How much Aid Nepal needs is not a pertinent question. More important, where is it coming from and for what purpose is to be borrowed ?

Table : 6.13

Contribution of Foreign Assistance

(Rs. in million)

Fiscal year	TA[a]	Foreign loan				Foreign grants			
		Amount	% of TA	% of CE[b]	% of GDP	Amount	% of TA[a]	% of CE[b]	% of GDP
1990/91	8421.50	6256.70	74.29	-	5.39	2164.80	25.71	-	1.86
1991/92	8460.70	6816.90	80.57	-	4.70	1643.80	19.43	-	1.19
1992/93	10714.20	6920.90	64.60	-	4.19	3793.30	35.40	-	2.29
1993/94	11557.20	9163.60	79.29	-	4.78	2393.60	20.71	-	1.25
1994/95	11249.40	7312.30	65.00	-	3.48	3937.10	35.00	-	1.88
1995/96	14289.00	9463.90	66.23	-	3.95	4825.10	33.77	-	2.02
1996/97	15031.90	9043.60	60.16	-	3.35	5988.30	39.84	-	2.22
1997/98	16457.10	11054.50	67.17	-	3.81	5402.60	32.83	-	1.86
1998/99	16189.00	11852.40	73.21	51.54	3.59	4336.60	26.79	18.86	1.31
1999/00	17523.90	11812.20	68.46	46.36	3.23	5711.70	33.10	22.42	1.56
2000/01	18797.40	12044.00	64.07	42.54	3.06	6753.40	35.93	23.86	1.71
2001/02	14384.80	7698.70	53.52	31.07	1.90	6686.10	46.48	26.99	1.65
2002/03	15885.50	4546.40	28.62	20.33	1.04	11339.10	71.38	50.72	2.59
2003/04	18912.40	7629.00	40.33	33.03	1.61	11283.40	59.66	48.86	2.38

2004/05	23657.30	9266.10	39.16	33.89	1.82	14391.20	60.83	52.64	2.89
2005/06	22041.80	8214.30	37.26	27.74	1.21	13827.50	62.72	46.70	2.26
2006/07	25854.30	10053.50	38.88	25.30	1.33	15800.80	61.11	39.77	2.09
2007/08	29300.60	8979.90	30.64	10.77	1.18	20320.70	69.35	37.97	2.69
2008/09	36351.70	9968.90	27.42	13.63	1.09	26382.80	72.57	36.09	2.90
2009/10	49769.30	11223.40	22.55	12.43	1.05	38545.90	77.44	42.71	3.63
2010/11	57997.80	12075.60	20.82	11.19	0.96	45922.20	79.17	42.58	3.68
Average	-	-	52.63	27.67	2.69	-	47.58	37.70	2.18
Arithmetic Annual Average Growth Rate	-	6.12	-	-	-	21.10	-	-	-

TA[a] refers to total Assistance i.e. Foreign Loan plus Foreign Grants
CE[b] refers to capital expenditure.
Source : Economic Survey, FY 2010/11 and 2011/12, MOF, Kathmandu.

Table (6.13) reveals that the amount of foreign loan in the fiscal year 1990/91 was Rs. 6256.70 million. However it is increased as high as 12044.00 million in 2000/01 and rapidly decreased in the years 2001/02 and 2002/03. The trend then has risen to Rs. 12075.60 million in the year 2010/11. The share of foreign loan as a percentage of GDP has however declined continuously from 5.39 percent to 0.96 percent in the final year of the study.

Likewise, the foreign assistance in the form of grants is one of the potential sources of government receipts to meet the budgetary deficit in a developing country like Nepal. It is a non interest bearing and non refundable transfer assistance of developed countries and international agencies to the developing countries. It mainly depends up on the foreign policy, political environment, relationships and development attitudes of donor as well as recipient countries. Nepal receives grants from both the bilateral and multilateral sources. A foreign grant has become the major component to finance the overall development of the country since the restoration of democracy in 1990/91.

The percentage of share of foreign grants in total assistance was 25.71 percent in the year 1990/91. However, it has been increased to 33.10 percent in the year 1999/00 and that has grown to 79.17 percent in the last year of the review period which is the highest share of foreign grant in the total Assistance. Furthermore, the percentage share of foreign grants to capital expenditure shows the increasing trend. It has moved up from 18.86 percent in 1998/99 to 42.58 percent in the final year of the study.

Similarly, the percentage share of foreign grant in GDP has also shown the increasing trend during the review period. It was only 1.86 percent of GDP in 1990/91 and in the year 2010/11 the same has risen to 3.68 percent of the GDP. This reveals surprising growth of foreign grant for deficit financing and the trend shows still risen situation and more capital expenditure is financed through foreign grants and foreign loans. To be more clear, the trends of the Foreign Assistance have been presented collectively in the graphs pictured in the Appendix-6.

6.5.3.2 Financing by Internal Sources

The analysis indicates that deficit financing in Nepal chiefly depends upon external sources. If this source is inadequate to meet the deficit, then the alternative which is opted is the internal borrowing. There are mainly two sources of internal borrowing which constitutes borrowing from the banking system, non banking sector and cash balance surplus. The borrowing from the banking system include the issuance of treasury bills, development bonds and some special bonds which are created, renewed and issued by the government of Nepal. On the other hand, non banking borrowing include the borrowing from public enterprises, borrowing from the reserve money of provident fund and so on.

This Internal source is the domestic source of financing to meet the deficit arisen from the increased government expenses. Internal borrowing is comparatively lower than the external loan in the ratio of total loan, which is generally financed through the internal borrowings. For the national economic activity, it has also significant role to play since it may reduce external debt burden.

Table : 6.14

Contribution of Internal Sources

(Rs. in million)

Fiscal Year	Internal sources		Banking			Non Banking			Cash surplus (+/-)			Budget
	Amount	% of BD	Amount	% of IS	% of BD	Amount	% of IS	% of BD	Amount	% of IS	% of BD	Deficit
1990/91	4398.40	41.27	3713.20	84.42	34.84	839.50	19.08	7.87	-154.30	3.50	1.44	10655.10
1991/92	4444.80	39.46	1178.80	26.52	10.46	900.00	20.24	7.99	2366.00	53.23	21.00	11261.70
1992/93	5035.10	42.11	920.00	18.27	7.69	700.00	13.90	5.85	3415.10	67.82	28.56	11956.00
1993/94	2459.40	21.15	1000.00	40.66	8.60	820.00	33.34	7.05	639.40	25.99	5.50	11622.90
1994/95	3235.40	30.76	1300.00	40.18	12.35	600.00	18.54	5.70	1335.40	41.27	12.69	10517.80
1995/96	4360.30	31.54	750.00	27.20	5.42	1450.00	33.25	10.48	2160.30	49.54	15.62	13824.20
1996/97	5318.30	37.03	1500.00	28.20	10.44	1500.00	28.20	10.44	2318.30	43.59	16.14	14361.90
1997/98	6723.30	27.81	1600.00	23.49	8.99	1800.00	26.77	10.12	3323.308	49.42	18.69	17777.80
1998/99	6139.00	34.12	-	-	-	-	-	-	1429.00	23.27	7.94	17991.10
1999/00	5854.80	33.13	-	-	-	-	-	-	354.80	6.05	2.00	17667.10
2000/01	12144.10	50.20	-	-	-	-	-	-	5144.10	42.35	21.26	24187.90
2001/02	15241.90	66.44	-	-	-	-	-	-	7241.90	47.51	31.56	22939.40
2002/03	11890.80	65.59	-	-	-	-	-	-	3010.80	25.32	16.60	18128.10
2003/04	8199.20	51.80	-	-	-	-	-	-	2591.40	31.60	16.37	15828.20
2004/05	8780.40	48.65	-	-	-	-	-	-	-157.70	1.79	0.87	18046.50
2005/06	16565.30	66.85	-	-	-	-	-	-	4731.10	28.56	19.09	24779.80
2006/07	2..38.20	66.59	-	-	-	-	-	-	2145.90	10.70	7.13	30091.70
2007/08	24426.80	73.11	-	-	-	-	-	-	3930.40	16.09	11.76	33406.70
2008/09	39835.80	79.98	-	-	-	-	-	-	21418.70	53.76	43.00	49804.70
2009/10	2937.4	72.75	-	-	-	-	-	-	60.00	0.20	0.14	41197.21
2010/11	42018.09	84.67	-	-	-	-	-	-	-496.91	1.18	1.00	49622.50
Average	-	51.18	-	34.90	12.34	-	24.16	8.18	-	29.70	14.20	-
Airthmetic Annual Average Growth Rate	22.58	-	-	-	-	-	-	-	-	-	-	-

Source: Economic survey, FY 2010/11 and 2011/12, MOF, Kathmandu.

The table (6.14) reveals the fact that the contribution of internal sources depicts a fluctuating trend. However in the initials years of the review period, the contribution of internal sources as a percentage of budget deficit has declined to the level as low as 21.16 percent but in the later years of the review period it increased. It was as high as 84.67 percent in the FY 2010/11.

The contribution of banking sector to the internal sources was the highest in the FY 1990/91 that declined significantly in the years thereafter. The lowest contribution was Rs. 750 millions in the FY 1995/96 which comes to 5.43 percent of budget dificit. In the years from 1998/99 to the year 2010/11, the data of banking sector as well as non banking were not available. However, the banking sector's contribution was Rs. 1600 millions in the Fy 1997/98 which comes to 23.79 percent of internal sources and 8.99 percent of budget decicit.

The contribution of non banking sector has declined in the initial years of he review period but in the later years it increased. This is shown as percentage of non banking sector of budget dificit which is increasing. However, the contribution of non banking sector of total internal sources was the highest in the FY 1995/96 i.e. 33.25 percent which comes to 10.48 percent of budget deficit.

It has been argued that the negative amount of cash balance surplus of government current account implies overdraft and it has direct and proportional impact on the supply of money and there by inflation. It is a last resort of money to the government. The government also uses the overdraft facilities for financing the dificit.. In the fiscal year 1990/91, the contribution was negative which was 3.50 percent of internal sources and 1.44 percent of budget deficit. The cash surplus contributed as high as 53.76 percent in terms of internal sources and 43 percent of budget deicit in the FY 2008/09.

The overall trend, however, depicts the fact that the country is basically dependent on external source though the recent data shows that the share of external sources has been declining than that of internal sources. However, cash balance and internal loans can be identified as not contributing substantially as compared to the external sources for financing budgetary gap.

6.6 Public Debt

Public debt refers to loans raised by a government within the country or outside the country. Every government like individuals has to borrow when its expenditure exceeds its revenue. The prime objective of the public debt is to finance the budgetary deficit in Nepal.

Total public debt has been increasing rapidly since 1990/91 for meeting the requirement of budgetary deficit. Table 5.13 presents the trends in total public debt during the period of 1990/91 to 2010/11. An average annual growth rate of total debt has been 9.36 percent over the period under study. In absolute term, it has increased from Rs 10809.40 million in 1990/91 to Rs 54591.40 million in 2010/11.

Table : 6.15

Trend of Public Debt

Fiscal Year	Total Debt	As Percent of Total Debt	
		Internal	External
1990/91	10809.40	42.11	57.88
1991/92	8895.70	23.36	76.63
1992/93	8540.90	18.96	81.04
1993/94	10983.60	16.570	83.43
1994/95	9212.30	20.62	79.38
1995/96	11663.90	18.86	81.14
1996/97	12043.60	24.90	75.10
1997/98	14454.50	23.52	76.48
1998/99	16562.40	28.43	71.57
1999/00	17312.20	31.76	68.24
2000/01	19044.00	36.75	63.25
2001/02	15698.70	50.95	49.05
2002/03	13426.40	66.14	33.86
2003/04	13236.80	42.36	57.64
2004/05	18204.20	0.49	95.51
2005/06	20048.50	59.02	40.98
2006/07	27945.80	64.02	35.98
2007/08	29476.30	69.53	30.47
2008/09	28386.00	64.88	35.12
2009/10	41137.40	72.71	27.29
2010/11	54591.40	77.88	22.12
Average	-	42.68	62.30
Airthmetic Average Annual Growth Rate	9.36	-	-

Source: Economic Survey, FY 2010/11 and 2011/12, MOF, Kathmandu.

Table (6.15) shows the share of internal and external debt in total public debt during the same period of the study. The share of external debt, on overage, has been 62.30 percent over the period which is very high causing debt servicing problem. However, the share of external debt in total debt has decreased from 57.88 percent in 1990/91 to 22.12 percent in 2010/11. Maximum percentage share of its recording is 99.51 in 2004/05.

The share of internal debt in total debt covers quite low during the study period i.e. only 42.68 percent. However, its percentage share in total debt has increased from 42.11 percent in 1990/91 to 77.88 percent in 2010/11 which is its maximum share in total debt.

CHAPTER VII

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

7.1 Summary

Budget is guideline of annual programme and policy of a government. Moreover, it is the main instrument of economic policy, incorporates policies, programs and activities related to government expenditure, revenue and financing of deficit. Tax and non tax revenue plays a vital role in collection of revenue for meeting the requirement of government expenditure. Foreign grants are also included in the sourced financing. Any difference between government expenditure and government receipts is financed through external (foreign loan) and internal sources (banking, non banking and cash surplus/deficit). As government activities and obligations are increasing, deficit financing is the common phenomenon of every Fiscal Year's Budget.

After restabilishing democracy in 1990/91 and even after announcing Nepal as a Fedral Democratic Republic in 2005/06, Governments of Nepal has attempted to increase the amount of expenditure and revenue which is clearly seen in its annual budget. The present study entitled on "An Analysis of the trends of Budgetary Components of the Government Budget in Nepal after Restoration of Democracy" covers actual figures of the period of 21 years (1990/91-2010/11). This study has tried to show the trend of government expenditure, revenue, foreign aid, deficit financing and public debt in Nepal as well.

Following are the major findings of the study. These findings are based on the analysis of the budget data for the FY 190/91 to 2010/11. Budget data for the expenditure and its components are analysed for the period 1998/99 to 2010/11 as the data for the previous years are not available as per the new classification brought out from 2004/05.

1. Looking at the expenditure trend of review periods, Government expenditure has accelerated from Rs 59579.00 million in 1998/99 to Rs 295363.40 million with an average annual growth rate of 14.62 percent. The growth rate of recurrent expenditure in total expenditure has been 15.33 percent, capital expenditure 14.83 percent and principal repayment expenditure 12.35 percent respectively.
2. The share of recurrent expenditure of total expenditure is increasing where as the capital expenditure and principal repayment expenditure is decreasing over the period under study. Out of the total budgetary expenditure, recurrent expenditure covers 58.36 percent, capital expenditure stands 29.9 percent and principal repayment expenditure claims 9.57 percent in average over the study period.
3. In an average, the share of recurrent expenditure to GDP is 11.68 percent, capital expenditure 6.05 percent and principal repayment expenditure 1.88 percent under the study period.
4. In general, it is found that government is not able to increase capital expenditure to the desired level and more expenditure have been made in recurrent and principal repayment expenditure which is increasing in faster pace than capital expenditure in every fiscal year.
5. Among the major components of recurrent expenditure, the share of social service claims a highest amount with in all fiscal years compared to others. This above covers at on annual average 34.43 percent nearly one third of total recurrent expenditure incurred within the period.
6. Due to political instability (Armed conflict, madhesh movement and other various movements) prevalent at the time and increase in defence activities, defence expanses

is on increasing trend which constitutes fourth largest share in total recurrent expenditure.

7. Among the different heads capital expenditure, the share of expenditure on economic services in totaled capital expenditure is highest which on average is 52.31 percent in the review period.
8. Of the components of principal repayment expenditure principal repayment under foreign loan has always been higher than domestic loan repayment except in the years 2004/05 to 2007/08. It indicates that larger part of deficit financing is borne by foreign loan.
9. Total revenue has increased from Rs. 10729.50 million in 1990/91 to Rs 199818.70 million in 2010/11 with an average annual growth rate of 16.04 percent. The growth rate of tax revenue has been 18.727 percent per annum, whereas the growth rate of non tax revenue has been 14.13 percent over the study period.
10. Of the total revenue, the share of tax revenue in total revenue is 78.78 percent which is 10.09 percent of total GDP. However the share of non tax revenue in total GDP is 2.64 percent under the study period. This shows that the contribution of tax revenue is greater than non tax revenue while the pattern of the contribution of tax and non tax revenue is more or less constant.
11. Among the major heads of tax revenue, tax on property profit and income has highly increased by 24.17 percent during the study period where as the tax on consumption and product of goods and sevices contribute maximum to total tax revenue i.e. 45.75 percent.
12. In the major components of non tax revenue, royalty sales of fixed assets is highly increased by 80.86 percent except the miscellaneous items which grew by 88.92 percent during the study period. However the contribution of principal and interest payments components to total non tax revenues is maximum i.e. 27.83 percent on an average.
13. In the composition of principal repayment expenditure the growth rate of domestic loan is maximum i.e. 41 percent while the magnitude of foreign loan in principal repayment expenditure is higher than domestic loan i.e. 52.21 percent in average.
14. Overall budgetary deficit has increased from Rs. 12820.30 million to Rs 95544.7 million with an average annual growth rate of 11.40 percent. However, the budgetary deficit has such rate is 8.20 percent. Which has risen from Rs 11190.30 million to Rs 49622.50 million over the period under study.
15. Internal loan (including cash balance) has increased from Rs 4398.40 million to Rs 37546.70 million with an average annual growth rate of 21.83 percent over the study period where as external loan has increased only with the rate of 7.40 percent with its magnitude amounted at Rs 6256.70 million to Rs 12075.60 million during the study period.
16. The share of foreign Grants in total assistance has risen from Rs 2164.80 million to Rs 45922.20 million over the period. It has increased by 21.10 per annum. This reveals the fact that surprising growth of foreign grants for deficit financing and the trend of it shows still risen situation. And more capital expenditure is financed through foreign grants and foreign loan.
17. The total public debt has increased by 9.36 percent annually during the study period. The share of external debt on an average has been 62.30 percent which is very high causing debt servicing problem.

7.2 Conclusion

During the decades after the restoration of multiparty system in 1990, the democratic government, despite their serious attempts, seen unable to mobilize adequate domestic resources as evident from the less than expected revenue/GDP ratio, higher fiscal deficit/GDP ratio, narrowing revenue surplus, and large outstanding government debt/GDP ratio. Recently, a major feature of the budgetary development has been the growing dependence on foreign loans for deficit financing. Around 66 percent of the development expenditure has been purposed to be financed through the foreign sources. This is not a happy situation for Nepal.

GON, during the Nineties and even after the Nineties, followed the vigorous policy of liberalization, privatization and globalization, giving primary focus on private sector activities. Although there was a series of changes of the governments on a frequent basis, there has been no major diversion during the period over study at least in the major policy framework of the government. However, despite GON adopting the policy to boost the private sector, in actual sense, private sector has not been able to come up as expected since frequent changes of government created since frequent changes of governments created policy confusion and uncertainties in the economy such political instability resulted in the lack of commitment to pursue, in a smooth and coordinated scheme development activities due to excessive political interference for party politicizing. As a result, most of the development projects were halted without completion. Although the number of projects increased on a account of the political pressure, there was a sever in effectiveness in the implementation of these project.

GON faild to contain the growth of recurrent expenditure because of the increasing liability of the maintain law and order, debt service payments, salary increment and other overhead expenditures. As a result recurrent expenditure began to outstrip development expenditure during the period over study.

On the revenue side, mainly the customs duty, sales taxes have been reformed. But the reform in the customs duty has not been able in rectifying the anomalies contained in the foreign trade regime. These reforms could neither boost the import revenue from the third countries nor enhance the domestic revenue collection in a r4emarkeble manner. Though reform in income taxation in line with what is prevailing around the world today is by for a welcome step, no serious stepts have been taken to compensate the revenue loss caused by the tax reforms.

To sumup, despite the sincerity of purpose and the urgency to address the rising popular demands, the popularly elected governments could not transform their budget policies priorities and programs into realistic outcomes mainly because of the inadequate political vision and limited capacity of GON in transforming the plans and programs into outcomes. Therefore, the urgency for the future governments is to enhance the institutional and bureaucratic capacity to implement the promise and plans in an effective and efficient way inauditon to chalking out a sound development strategy most beneficial to the economy of the Nepal and the Nepalese people.

7.3 Recommendation

This study reveals that the budgetary trend of the Government of Nepal over the decades presents a gloomy fiscal scenario-low capital expenditure, high recurrent expenditure, low revenue collection and high fiscal deficit with high foreign loan inflows. The output of the economy has thus achieved average very low economic growth rate over the decades. Thus, this study present some crucial recommendations for the further improvement in the preparation and implementation of budget in Nepal.

1. Government of Nepal needs adequate mobilization of domestic resources. As the government has not sufficient fund to meet its growing expenditure on recurrent and development program, therefore revenue has to be increased. This can be done by improving effective tax policy and tax administration. This also includes simplification of tax rates, rationalization of tax structures and expansion of tax net.
2. Revenue policies should be formulated with the objective of industrializing the agro based national economy through adopting a scientific tax system, transforming tax administration into electronic system to make it effective and attracting domestic and foreign investment through the relation of an investment friendly environment as well as trade facilitation.
3. A high level permanent central revenue board should be established with the objectives of determining revenue policy conducting revenue administration based on short, medium and long term regular study and research on revenue policy, revenue administration and revenue related rules and regulations.
4. The tendency of revenue leakage in Excise, value Added Tax, Income Tax, and Custom Duty will be controlled by making information mechanism more effective.
5. In order to control revenue leakages a separate revenue police force has to be established and mobilized as emergency flying squad and revenue leakages should be strictly controlled.
6. Development of self reliant economy by carrying out speedy development activities is the need of the day. For this purpose a stronger efforts for rapid mobilization of internal revenue is extremely important. This will induce the government to reject donor driven aid if it does not fit its priorities and program objectives. Moreover, introduction of performance budgeting or zero based budgeting to selective projects under key ministries would be an effective move towards this direction.
7. Allocating aspect of expenditure must be taken into consideration on the basis of national priorities so that productivity and production may increase within stipulated time period.
8. Bringing peace in the economy could save expenditure on defence. Resource can be diverted to more economical and productive infrastructure development thus, there must be cut in defence as well as unnecessary recurrent expenditure activities as well.
9. The size of overall budgetary deficits including grants has remained high mainly due to low revenue and high expenditure. This has led to heavy borrowing form internal and external sources. So for reducing the volume of borrowing, revenue collection is to be increased substantially in order to attain self-sufficiently in the long run.
10. Nepal is currently facing a serious problem of resource gap and this urgently needs to be narrowed. Budgetary deficit need to be reduced by mobilizing additional resources. The government should take a number of measures such as strengthening the tax administration, increase tax base to promote revenue generation and control of corruption.
11. Large proportion of internal borrowing comes from banking sector particularly from the central bank which is expansionary therefore this internal borrowing is to be kept with in limitation.
12. The focus should be drawn upon borrowing from non-banking sources and banking sources other than central bank that has least or no inflationary impact. However, it is not to be forgotten the effect of croud out' while talking internal borrowing.
13. The gradual increase in external debt has been to great extent responsible for increasing volume of imports of conspicuous consumer goods. This tendency must be discouraged by adopting suitable import policy. In other words, import policy should emphasizes imports of capital goods, for productive purpose.

14. Proper coordination between National planning commission and Ministry of finance should be maintained and budget should be prepared depending upon the commitment of the campaign of building prosperous, modern and just Nepal in true sense, learning the lessons from the past that it would be difficult to maintain sustainable peace, economic growth and stability if the peoples aspirations are not appropriately addressed. The purposed budget should be basically focused on the background of these major priorities.
15. While formulating budget, state should be identified the obstacles for higher and inclusive growth and judicious distribution of income and concentrated the polices and programs towards minimizing them.
16. Peoples' expectations have been risen significantly after the historical political changes. In order to fulfill their expectations gradually government should be focused by long term benefits which can be attained if budgetary resources are allocated to the bigger projects of the national pride that will support speedy economic growth and can be completed on time rather than dispersing resources thinly everywhere and end up by non completing projects.
17. MTEF need to be implemented with earnestness and on more comprehensive basis Rewards and punishment system should be made effective so that pubic accountability and responsibility will increase, which then will help in the effective implementation of the Government policies and development programs through among peoples, the reduction in the rampant misuse of public resources.
18. There are also irregularities and leakages in budgeting. About 10 to 11% of development budget going irregularities and leakages. The greater dependence on foreign Aid and loans should be minimized to a reasonable extent and taxation system should be modernized by expanding the scope of taxation by increasing tax base and by making the tax structure more progressive. moreover, elasticity of taxation should be increased by mobilizing additional resources through improving efficiency of tax administration and without increasing the tax rates.
19. In absence of proper forecasting of government revenue, our budget estimations are far from realistic. Revenue are buoyant but inadequate to supplement development activities. WTO and SAFTA provisions have limited the prospects for additional revenue mobilization for developing countries are required to gradually lower down the tax rates inclusive of both direct and indirect taxes. The long term forecasting is essential to identify the actual size of revenue and determine the magnitude of surplus that would be available to match counter-part funding to development expenditure. Thus it is essential to ensure great realism in resource forecasting, projection of revenue, aid inflows and the size of capital expenditure budget would need to be in line with the recent performance and reasonable expectations.
20. Foreign Aid policy is to be brought out as per our national interest and priorities. A national action plan on Aid effectiveness should be implemented to improve the effectiveness of the foreign assistance. Strong monitoring system should be developed to enhance the aid effectiveness and utilization capacity.
21. The budget process needs to be made more responsive less "top down" and more "bottom-up" in terms of accommodating programs so long as they are consistent with sectoral strategies and priorities proposed by local level constituents and line ministries to improve the effectiveness of public spending. It is necessary to promote greater local ownership of the public expenditure program. It is also necessary to strengthen revenue consultation committee by providing legal status.
22. There should be a budgetary certainty regarding on the scheduled day of presenting the full-fledged budget for the whole fiscal year.

23. The budgetary decision should be carried out with social and economic objectives in view rather than fulfill political objectives.
24. Earmarking of funds can help better achieving the budgetary goals.
25. Announcing the budget through ordinance (special budget) bringing incomplete and persistent delay of budget, showing rude behavior and physical attack to the finance minister in the parliament etc. should be discouraged. All political parties and the members of the parliament must obey the parliamentary norms and values showing serious concerns about the fate of national economy and economic prosperity of Nepalese citizen with strong support and backup for the early budget presentation.
26. There should have strong unity among all political parties on national economic agenda and have consensus for the early and complete budget in such a manner that properly addresses the current issues of the national economy and maintaining the economic dynamism.
27. To establish the ownership of the people and enhance the public partnership in formulating budgetary policies and programs and policies in democratic system, Government should take valuable suggestions and advices from the leaders of the various political parties, member of the legislative-parliament, Economists, academicians professionals, commercial organizations, representatives of various professional, representatives of professional organizations and representatives of civil society as well.
28. Sectoral policies and programs of budget should be need based and priorities oriented such that they can contribute to trade facilitation, increase in investment, control in smuggling, increase feeling of security in public, increase in billing system of value Added Tax through the improvement in custom valuation and impact positively on overall revenue collection.
29. The common people have been victimized from rampant corruption growing in the form of culture in Nepalese society. Therefore, the state responsibility to provide relief to the people by ending all forms and practices of corruption. The strategic plan against corruption will be implemented strictly and policy of zero tolerance should be adopted. Commision for investigation of the Abuse of Authority (CLAA), National vigilance centre and agencies concerned with justice management will be strengthened and made effective.
30. Macro economic stability is the precondition for rapid economic development. Budget deficit should be kept within a specific limit without contraction of the resources to be directed towards the private sector. Government expenditures should be mobilized towards the productive sector by curtailing the expenditure of the unproductive sector. The monetary policy should be aimed at an investment promotion and price control. Deposit mobilization and mocro-finance should be emphasized by expanding the banks and the finantial institutions. Balance of payment situation will be strengthened by gradually reducing trade defecits. Political initiatives should be taken to minimize action like Bandha, strike highway obstruction, road black and Gherao that obstructs the economic stability which ultimately brings the budgetary uncertainty. So the purposed budget should be directed to remove such misdeeds of the economy.
31. Basically, the foundations of national budget should be guided by the sprit of the guiding principal and polices of interim constitution : 2007, vision, mission, goal and objectives of three year plan (2010/11-2012/13), program and polices of the government, millennium development goals, political consensus among the political parties, private sectors, cooperatives and society, Academicians, professionals and representatives of national/international organization etc. as well.

32. Besides all these what is required is the urge on the part of the government to carry out its responsibilities effectively act to execute budgetary and direct control measures simultaneously. This will help to maintain both internal and external stability in the economy. Moreover, the working machinery of the government should be efficient, honest and responsible, otherwise no policies can solve the problems arisen in the national economy.

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APPENDIX

1. Size and Objectives of the GON Budgets from 1990/91-2010/11

FY	Size of budget in Rs. Billion	Budget objectives	Budget delivered by the Finance ministers
1990/91	R. 19.79	• To rationalize the role of the private sector. • To minimese the increasing hardship of the common people. • To start a process of repaying the accumulated finantial liabilities of the government. • To direct the development programs by eliminating the existing anomalies.	Dr. Devendra Raj Panday
1991/92	Rs. 26.64	• To involve the general masses into the main stream of national development and deliver the gains of development to the poor. • To mitigate the economic hardship of the people. • To increase the participation of the private sector. • To maintain a rational balance between development investment and administrative expanses through expenditure management. • To enhance mobilization of the domestic resources.	Mr. Mahesh Acharya
1992/93	Rs. 33.60	• To bring output of the development to each donors of the people by participating the common people in the main stream of the national development. • To minimize the finantial difficulties of the common peoples. • To make more liberal and dynamic of the economy by increasing the involvement of the private sector. • To maintain rational balance by controlling unproductive expenses between administrative and development investment. • To grow the domestic resource mobilization by improving revenue administration.	Mr. Mahesh Acharya
1993/94	Rs. 35.51	• To make sustainable economic development. • To alleviate poverty. • To minimize the sectoral imbalances. • To emphasize the system of decentralization, economic stability	Mr. Mahesh Acharya

		and the high investment on the sectors of social services.	
1994/95 (in July 15, 1994)	Rs. 39.91	• To alleviate poverty. • To build strong national economy. • To increase economic efficiency. • To utilize the optimal level of natural resources.	Mr. Mahesh Acharya
1994/65 (in December 26, 1994)	Rs. 42.69	• To alleviate poverty through appropriate relief measures and ultimately building a strong national economy. • To increase the economic efficiency and give an impetus to the economy of optimally utilizing resource. • To accelerate the industrialization process through development and promotion of National industries.	Mr. Bharat Mohan Adhikari
1995/96 (in 11 July, 1995/96)	Rs. 52.89	• To attain high economic growth by concentrating investment in sectors which contribute of production and productivity. • To create wider employment opportunities for the educated unemployed youth and other unemployed labor force. • To accord high priority to social sector development. • To implement the concept of well managed development and to uplift deprived region and class, investments in rural areas. • To provide relief to the people. • To carry on economic reforms programs in a balanced manner and at the same time to give certainity to the sustainable economic development.	Mr. Bharat Mohan Adhikari
1995/96 (in 15 October, 1955)	Rs. 51.64	• To adopt economic liberalization as a major strategy of the economic sector reform. • To provides the gain of economic liberalization to the poor and deprived people. • To equip and empower the local bodies. • To provide economic and social security to the helpless, disabled and deprived people. • To achieve the sustainable economic development.	Dr. Ram Saran Mahat
1996/97	Rs. 57.56	• To achieve high economic growth	Dr. Ram Saran Mahat

		rate while containing the economic reform program. • To increase skill development and employment opportunities. • To launch concrete programme for poverty alleviation. • To launch the program of decentralization.	
1997/98	Rs. 62.02	• To remove obstacles of higher economic growth. • To give emphasis on macroeconomic stability and fiscal discipline. • To implement integrated and effective poverty alleviation program. • To convert rural areas into the focal point of development.	Mr. Rabindra Nath Sharma
1998/99	Rs. 69.69	• To improve public finance by increasing productivity in revenue mobilization and public investment. • To boost economic activities by expanding investment from the private sector and strengthening finantial sector. • To forcefully and effectively orient governmental efforts and roles towards agriculture and rural development, employment promotion, alleviation of poverty and social welfare.	Dr. Ram Saran Mahat
1999/00	Rs. 77.23	• Poverty alleviation, high economic growth rate, strong economy and good governance.	Mr. Mahesh Acharya
2000/01	Rs. 91.62	• To enhance the effectiveness of public resource management. • To accelerate economic reform programs. • To improve institutional capacity.	Mr. Mahesh Acharya
2001/02	Rs. 99.79	• Poverty alleviation, broad based sustainable higher economic growth rte. • Ensuring the access of deprived people.	Dr. Ram Saran Mahat
2002/03	Rs.	• To invest peace restoring. • To accelerate the pace of poverty reduction program. • To recover the economy.	Prime Minister Sherbahadure Deuba
2003/04	Rs. 102.40	• To contribute to potential and socioeconomic transformation. • To continue the poverty alleviation and economic reform policy and programs.	Dr. Prakash Chandra Lohani

2004/05	Rs. 111.68	• To restore peace, relief, rehabilitation and reconstruction. • To being socio-economic transformation and progression. • To bring judious access to resources and opportunities and devolution of the authority. • To additionally support to poverty reduction programs.	Mr. Bharat Mohan Adhikari
2005/06 (the budget presented by the government under Gyanendra Shah)	Rs. 126.88	• To invest for the restoration of peace. • To pave way for establishing private sector in a leadership role in the development of economic sector. • To improve the economic, human and social indicators of ultra poor and deprived groups.	Mr. Madhukar Shamsher J.B. Rana
2006/07	Rs. 143.91	• To institutionalize the democratic system. • To develop economic infrastructure. • To improve investment climate. • To making economic programs Pro-poor and inclusive. • To increase investment in social sector. • To implement programs for relief, rehabilitation and reconstruction. • To increase capital investment and productivity.	Dr. Ram Saran Mahat
2007/08	Rs. 168.99	• To mention sustainable peace, stability and strengthening of the democratic system. • To alleviate poverty by bringing socioeconomic transformation. • To make the prosperous nation, investment promotion, human development Reconstruction, Rehabilitation and relief.	Dr. Ram Saran Mahat
2008/09 (in 14th July, 2008) According to the article 96 (a) of the Interim constitution of Nepal, 2007	Rs. 73.54 one third of the total revised expenditure of current fiscal year from the consolidate fund	• To spend for regular services and works in the FY 2008.	Dr. Ram Saran Mahat
2008/09 (in 19th September, 2008)	236.15	• To institutionalize the Fedral Democratic Republic. • To bring logical conclusion of peace. • To accelerate the process of social	Dr. Baburam Bhattarai

		and economic transformation to accomplishing the great mission of building just, advanced and prosperous new Nepal. • Achieving higher economic growth. • Providing immediate relief to the people. • Erecting foundation of a self-realiant and independent economy through optimally mobilization of national capital and indigenous resources.	
2009/10	Rs. 285.93	• To facilitate promulgation of the new constitution as per the people's expectations and bring peace to an end. • To create employment by encouraging roles and investment of the cooperatives, private sectors pursuant to the concept of in inclusive development. • To emphasize the development of large physical and economic infrastructures for rapid economic growth. • To intensify the relief, reconstruction and rehabilitation for the conflict affected. • To provide relief to the people by controlling price and facilitating supply system.	Mr. Surendra Pandye
2010/11 (in 12 July, 2010) According to Article 96(9) of the Interm constitution of Nepal, 2007	Rs. 110.21 (One-third of the total revised expenditure of current fiscal year from the consolidated fund)	• To spend for the regular services and works in the FY 2010.	Mr. Surendra Pande
2010/11 (in 20 November, 2010)	Rs. 337.90 (budget through ordinance)	• To give due consideration in strengthening the foundations of economy as outlined in the three year plan. • To bring peace process to logical end, state reconstruction and state of transition to ensure the completion of writing the constitution of Fedral Democratic Republic of Nepal. • To give continuity to ongoing programs rather than intuition of new programs.	Mr. Surendra Pande

Source: Budget issued from 1990/91-2010/11, MOF, Kathmandu

2. Trend of Recurrent Expenditure, Capital Expenditure, Principal Repayment Expenditure and Total Expenditure in Graph

3. Trend of Total Revenue, Tax Revenue and Non-Tax Revenue

4. Trend of Overall and Budget Deficit

5. Trend of the Source of Deficit Budget

6. Trend of the Foreign Assistance

		•	Mr. Mahesh Acharya
		•	Mr. Bharat Mohan Adhikari
		•	Mr. Bharat Mohan Adhikari
		•	Dr. Ram Saran Mahat
		•	Dr. Ram Saran Mahat
		•	Mr. Rabindra Nath Sharma
		•	Dr. Ram Saran Mahat
		•	Mr. Mahesh Acharya
		•	Mr. Mahesh Acharya
		•	Dr. Ram Saran Mahat
		•	Prime Minister Sherbahadure Deuba
		•	Dr. Prakash Chandra Lohani
		•	Mr. Bharat Mohan Adhikari
		•	Mr. Madhukar Shamsher J.B. Rana
		•	Dr. Ram Saran Mahat
			Dr. Ram Saran Mahat
		•	Dr. Ram Saran Mahat
		•	Dr. Baburam Bhattarai