BUDGETARY STRUCTURE OF NEPAL (2000/01-2010/11)

A Thesis
Submitted to the Central Department of Economics,
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In Partial Fulfillment of the Requirement
for the Degree of
MASTER OF ARTS
in
ECONOMICS

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LETTER OF RECOMMENDATION

This thesis entitled **" Budgetary Structure of Nepal (2000/01-2010/11) "** has been prepared by Mr. Bhim Prakash Budhathoki under my supervision. I hereby recommended this thesis for examination by the Thesis Committee as a partial fulfillment of the requirements for the Degree of MASTER OF ARTS in ECONOMICS.

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Date:

APPROVAL LETTER

We certify that this thesis entitled **"BUDGETARY STRUCTURE OF NEPAL (2000/01-2010/11)"** submitted by Mr. Bhim Prakash Budhathoki to the Central Department of Economics, Faculty of Humanities and Social Sciences, Tribhuvan University, in partial fulfillment of the requirements for the Degree of MASTER OF ARTS in ECONOMICS has been found satisfactory in scope and quality. Therefore, we accept this thesis as a part of the said degree.

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Bhim Prakash Budhathoki

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Abbreviations

ADB	Asian Development Bank
AG	Auditor General
AGO	Auditor General Office
ARDL	Autoregressive Distributed Lag
CBS	Central Bureau of Statistics
CEDA	Centre for Economics Development and Administrations
CEDECON	Central Department of Economics
BD	Budget Deficit
DE	Development Expenditure
DS	Debt Servicing
DTO	District Treasury Office
EL	External Loan
ES	Economic Survey
FCGO	Financial Controller General Office
FD	Fiscal Deficit
FG	Foreign Grants
FL	Foreign Loan
FY	Fiscal Year
GDP	Gross Domestic Product

GON	Government of Nepal
IME	International Monetary Fund
LDC	Least Developed Countries
MOF	Ministry of Finance
MOU	Minutes of Understanding
MPs	Member of Parliaments
MTEF	Medium Term Expenditure Framework
NAG	Nepal Aid Group
NGOs	Non Government Organizations
NPC	National Planning Commission
NGDO	Non Government Development Corporation
NRB	Nepal Rastra Bank
OLS	Ordinary Least Square
PCO	Project Coordinator Office
RCC	Revenue Consultative Committee
RE	Recurrent Expenditure
SAFTA	South Asian Free Trade Area
TE	Total Expenditure
TR	Total Revenue
TU	Tribhuvan University
VAR	Vector Autoregressive
VAT	Value Added Tax
VDC	Village Development Committee
WB	World Bank
WTO	World Trade Organisation

CHAPTER - ONE
INTRODUCTION

1.1 Background of the Study

The word 'Budget' is said to have its origin from the French word 'Bougett' which refers 'a small bag'. Today bag itself is not vital but people are anxious to see what the bag contains. Therefore the bag contains economic bill presented by the Finance Minister in the parliament annually. Every democratic government makes vigorous effort for this end, maximizing the welfare of the community in the modern times. In order to achieve, the government takes in hand various socioeconomic activities. A budget, therefore, is not only a financial statement of actual and anticipated revenues and outlays of the government but also a document of detailed programs and policies of action which they desire to pursue in the coming years for raising the level of economic activity.

Government budget now becomes the center of public economy since it is a major instruments of social and economic development. But there was a time when it was considered merely a report for the information of the legislature. It was even made an object of ridicule. A budget maps out the process of acquiring scope resources for government or for use under government direction. It should be noted that it is not a balance sheet of the whole economy because it does not present a complete picture of the financial condition of the country. From government budget we can not get a picture of the total assets and liabilities of the country but only that of receipts and expenditures of a government for the year under reference.

Budgetary system of Nepal is not so longer. In the form of systematic presentation budget was introduced in 1951 after restoration of and democracy presented by the finance minister Subarna Shamsher Rana with the anticipated revenue estimation was of amount Rs. 3.05crore. According to Government Act.1951, it was mandatory to prepare income and expenditure estimate for coming year and obtain consent from the president, after obtaining from president the budget was made public.

In every under developed country, national government play leading roles in planning and implementing programs for economic development would require and provide the incentive for a rapid improvement in the system and technique of government budgeting. It is thus found essential and important to pursue a study that would highlight and assess the policy framework of the budgets of the democratic government in Nepal.

The budget being a financial statement of the government is a decision making process to incur expenditure and generate revenue. Budgeting is carried out to fulfill certain state responsibilities and objects of social and economic development. Public budgeting involves the selection of ends and the selection of means to reach those ends. Public budgeting systems are systems for making choices about ends and means. It is Complex channel information exchange and assessments about what is or isn't being achieved. Series of intricate processes that link both political and economic values are integral to budgeting system. Government is entrusted with number of social and economic obligations. Some of the objectives are social while others are political. It can become a good source of public information of past activities, current decision and future prospects.

A government budget is a financial plan outlays and receipts. Usually it embodies in a document that may be called the budget, but the budget is much more than that. It is the outcome of a process that includes preparation of the financial plan, review of the plan by the legislature where there is one, execution of the plan and (ideally) evaluation and public reporting of the results. A good budget document includes text and tables designated to serve the multiple purpose of the budget. The text explains and justifies the decisions reflected in the budget. Budgeting serves several purposes that: a) it sets a framework for policy formulation, b) it is a means of policy implementation, c) it is a means of legal control and d) the budget document may be a source of public information on past activities, current decisions and the future prospects.

There was a time when the budget was considered merely a report of information of legislation. But today the budget is the nerve center of public economy. It has developed into a major instrument of social and economic development. Before Keynesian theory in the period of classical economists and their followers, the budget has the passive role in the economic development, since the classical economist advocated the balanced budget as the golden rule and advocated the use of public expenditure only for maintenance of law and order, defense and certain social overheads. But the economic depression of the 1930`s reveals the fact that the correct disorder situation of the capitalist economy. The government intervention has become a principal instrument which has emerged from the words of Keynes.

In today‘s world the budget is known as the device for influencing the allocation of resources throughout the economy directly through expenditure decision and indirectly through policy decision built in to the budget. It is important tool in learning the relationship of government programs to economic and financial conditions and trends in fashioning suitable economic and financial policies and measures.

The role of budget in a developing country is much different from that of developed country. In developed countries (economic), budgetary measures can minimize the cyclical influence through the maintenance of aggregate demand. Conversely, unemployment is not cyclical in nature in developing countries but chronic, reflecting structural bottlenecks of the economy. Therefore, injection of additional purchasing power, instead of increasing the level of production and employment causes larger import and raises the price level. This is why budget is used in developing countries as an integral part of development plans.

Deficit budgeting is common characteristics of almost all budget in today’s world. As state has right to use all the available resources in the economy and not limited to its possession only, government can have excess to its revenue. Deficit financing may be added productivity and additional value in the economy but it may also create burden to the economy. Deficit financing is productive when expenditure is made on capital goods and productive channels. Deficit financing for the current expenditure and consumption may cause the burden to society.

1.2 Statement of the Problem

In developing countries like Nepal, unemployment is not cyclical in nature but chronic, reflecting structural bottlenecks of the economy. Therefore, injection of additional purchasing power, instead of increasing the level of production and employment, causes larger imports and raises the price level. This is why budget is used in developing countries as an integral part of development plans.

Nepal is a country facing a major macro economic crisis, indeed, in many respects its macro economy is reasonably sound, with an improving balance of payments, adequate foreign exchange reserve, relatively modest inflation, fiscal deficits financed largely by external aid and relatively low levels of domestic borrowing. However, it is stuck in a low level equilibrium, with decline investment, codest economic growth, high population growth and widespread particularly weak and fiscal stability is being maintained largely at the expense of development activity.

The effectiveness of the budget could be visualized in the economic indicators such as GDP growth, price stability, employment generation, socio-economic infrastructure development, improved domestic resource mobilization and reduced dependence on foreign financing, current account and balance of payment improvements, poverty reduction, fiscal welfare improvements, better law and security environments, etc. but non of these indicators are found to be satisfactory in our national development exercise despite the implementation of ten periodical plans. In Nepal, budgets seem to have been characterized uncertainties allocation of resources usually more with optimal expectations. Due to such phenomenon several programs have to leave out. It may be noted here greater preparation of the total development budget is financed by external sources.

It has been widely realized that the developing countries are suffering from the resource gap and it is financed through internal and external sources. Realizing this factor, importance of government role in economic development has been greatly accepted over the time. The government expenditure has been increasing every year due to expansion any polices of the government of Nepal. And increase in government revenue is not sufficient to finance increased government expenditure. Domestic resources have been ever insufficient and there is difference between outlay and revenue. Therefore, increasing resource gap is the characteristic phenomena of Nepalese budget each year. The way out for the fulfillment of such gap of Nepalese budget is to resort either through external grant or internal loan.

One of the most frequent problems posed for the country's macro- economic stability is the acute resource gap in the public sector. The ever increasing government expenditures and limited revenues to finance it had led the country towards fiscal crisis over the years. Government expenditure is increasing day by day while there is no an equivalent increasing in government revenue. The government has been increasing security expenses heavily in recent decades. For this reason, deficit has a great role to maintain Nepal's budget. Deficit budget is regarded as an instrument to mobilize internal resources of Nepal. It is imperative to assess the trend of budget deficit of Government and its effect in the economy.

As accordingly the situation of a budget deficit is increasing. There are many challenges to finance it. Most of the countries are financing it with the help of foreign loan and domestic borrowing. As deficit is increasing, there is no doubt to increase foreign loan or domestic borrowing. Nepal is also facing the same problem where budget deficit is increasing. But can economy endure the financing process easily is the main question. In such context of increasing budget deficit, it is important to study the sources of financing it and also to analyze the trend of financing instrument as well as their relationship with budget deficit.

1.3 Objectives of the Study

This study is to find out the Nepalese Budgetary Structure and Impact of Budget Deficit in GDP growth of Nepal. The specific objectives are as follows:

i. To examine the process of the budget formulation in Nepal.
ii. To examine the trend and pattern of government budget in Nepal.
iii. To analyze the impact of budget deficit in GDP growth in the economy.

1.4 Significance of the study

Budget plays the important role for the economic development of the every country in the world. It has number of social and economic objectives. For the rapid development of the economy, budget should fulfill the objective of increasing employment opportunities, reducing poverty and inequality, increasing the standard of living of its people and the most important the stability in the economy.

This study intends to seek the degree of relationship between budgetary deficits and its impact. This study entitled ''Budgetary Structure of Nepal: With Reference from 2000/01 - 2010/11 has attempted to fulfill the research gap and to suggest some policy recommendations for the future budgetary practice. Being a developing country, the budgets in Nepal have been implementing to solve the problem encountered by the economy by targeting for higher goals whereas the capability and resource of the government could not match. Although nearly sixty budgets have been already implemented since 1951, improvements in the quality of life of the people have been at marginal and the rate of economic growth has remained insignificant. In this context, it would be interesting and useful to see and analyze the type of objectives, policies and priorities set in the budgets and the level of their actual outcomes so that the differences between the two could be identified and some useful measures could be find out to improve the system of formulating budgetary objectives, policies and priorities.

Foreign aid and loan has been increasing steadily to meet the resource gap showing economic dependency. Such gap between demand and supply of resources can not be fulfilled only from internal sources of developing countries. Hence, there is need of external capital and therefore foreign aids are one of the most important sources of deficit financing. Foreign aid has two forms: grants and loans. Grant is resource transfer without any requirement of repayment. On the other hand loan must be repaid after the end of maturity period interest charges as well.

No doubt, foreign aid plays an important role for deficit financing in economic development of underdeveloped countries like Nepal. This accounts the fact that domestic resources are inadequate to meet the financial requirement. The present level of capital level of capital formation is too low and any substantial increase in saving is not possible due to the extreme low level of income and wide spread poverty. The tax base is very low and most of the taxes are indirect in nature. This limits the possibility of mobilizing the tax revenue. On the other hand, there is very little scope of public borrowing due to very low per-capita income, underdeveloped money and capital markets. At this critical situation the only alternative to pull the economy out of the vicious circle of poverty is the foreign aid. Thus, foreign aid is gainful for the acceleration of the growth mechanism in underdeveloped countries like Nepal.

Therefore, this study on budgetary deficit and its sources of financing in Nepal will make additional contribution to some extent for pointing out some important facts regarding the policy instruments along with the assessment of revenue and expenditure pattern and internal and external sources of financing budget deficit.

1.5 Limitations of the Study

This study concentrates on fact finding and mainly covers major aspects of the budget such as revenue, expenditure and different sources of deficit financing.

a. This study is based on secondary data hence the reliability of the study is based on accuracy of secondary data.
b. This study does not analyze the overall impact of budget of the economy.
c. This study covers a time span of more than one decade (2000/01-2010/011).
d. This study based on financial as well as time constraints.

CHAPTER -TWO

REVIEW OF LITERATURE

2.1 Concept

The concept of budget is normally associated with national governments and internal-external sources. A government budget is framed in the shape of a financial plan it is a statement of income and expenditure relating to the various economic and other activities that the government intends to perform in the coming period, usually a year. Along with the proposed revenues and expenditure relating to these activities, a budget presents the financial accounts of the previous year, the budget and revised estimates of the current year and the budget estimate of the coming financial year. In the context of budget, several publications are published in the form of booklet, book, journal; articles etc. Like wise, there are several books, booklets, journals and articles written by Nepalese as well as foreign writers. Various studies have been done in the past on Nepalese Budget. Similarly, studies have been made to allocate the resources for different activities. The reviewed relevant past works are present below:

2.2 International Perspective

2.2.1 The World Bank

World Bank had reviewed public expenditure pattern of Nepal in 1999.In this study, W.B. has pointed out that fiscal management is week reinforcing in widespread perceptions of misuse and waste of scarce public resources. The review further found that budget preparation is divided into two branches with the Ministry of finance preparing the ‘regular budget’ and the national planning commission preparing the ‘development budget’ without well integration. Scarce resources are found to be allocated in an incremental basis rather than on resources needs of projects and programs. Because of political pressure to accommodate new projects, the budget, particularly development is heavily over-programmed so that many projects drive away too little resources. There is even weak link between plans and the annual budget without having rolling public expenditure programs.

As the study pointed out, institutional weakness was the result of over-staffing, low-salaries, political interference in appointments and transfer, inadequate recognition of efficiency and performance, which lead to poor public expenditure management. The study has noted that Nepal is at major cross roads in its economic and political development.

The study conducted by the W.B. has suggested some solutions to improve public resource management. Some of them are as(a) reexamination of the role of public sector in the economy, (b) focus limited resources on key priority areas where such resources can be put to most effective use, (c) ensure good governance and transparency, (d) desire action to formulate an anti corruption agenda, (f) strengths the institutional capacity for caring development activities.

2.2.2 International Monetary Fund (IMF)

Fischer(1990) has given has the following result in his study of the economics of the government budget constraint. The macro economic analysis that has outlined is a useful starting point for examining the economics of budget deficit. However, it takes more than a single indicator to judge fiscal policy. The macro economics of fiscal deficits both is crucial in its own right and has an impact on the macro economics of deficits. The more efficient are taxes and spending, the higher is the public deficit than can be sustained, since growth will be higher.

Felipe and Klaus (1991), in Zimbabwe, during the study period of 1980/81 to 1988/89,found that the public sector deficit has grown from less than 10 percent GDP in initial period of study (1980/81), but it is raised up to 14 percent of GDP over 6 year span. From which nominal interest on domestic debt and foreign debt output ratios were continuously rising. But due to the starting of fiscal adjustment program in 1987/88 and it was continuously decreasing. The study shows that among macro economic variables, real GDP growth, real import and real exchange deviation had a negative impact on public sector deficit. On the contrary, increase in the domestic real interest rate, domestic inflation and foreign nominal interest rate tends to boots the deficit in decreasing rate. The impact analysis shows that if real GDP has to be increased by one percent that translates the fiscal deficit should be increased by 16 percent. For this, the foreign real debt increased by 3 percent and domestic by 5 percent where the domestic inflation increased by31 percent. This whole finding shows that fiscal deficit has to be reduced for attaining the goals of sustainable development of the economy.

Chowdhury(2004) fiscal action does not have any perceptible influence on the exchange rates of the sampled countries except Nepal where increased government expenditure tends to appreciate the Nepali currency. This is a non-conventional result. Such a result can be theoretically explained by the monetary theory of exchange rate determination. The results obtained in this study have enormous policy implications for LDCs. The results will allay fears among policy planners in LDCs about the alleged deleterious effects of fiscal actions. Thus, more and not less of fiscal actions is recommended for accelerating growth in LDCs.

Huynh (2007) conducted his study while collecting data from the developing Asian countries for the period of 1990 to2006. He concluded that there is negative impact of the budget deficit on the GDP Growth of the country while simply analyzing the trend in Vietnam. Furthermore, he concluded the crowding-out effect surfaces as the budget deficit burden increases. There is a strong, significant and positive relationship between the budget deficit and the long –term nominal rate of interest in a study conducted for the period 1971 to 1984 on the united states of America (Cebula, 1988).Saleh(2003) on the basis of previous researches, which are conducted by economists regarding the impact of budget deficit on different economic variables, concluded that budget deficit has diverse impact on different economic variables.

Sriyana(2011) budget deficit is an important factor in increasing government spending, not only for operating, but also for development spending. This finding described that the government has created the fiscal trap in the long run, where an expansive fiscal policy was followed by higher deficit. This result recommends that the government allocates its spending into sectors that are more productive.

Fatima, Ahmed,Wali ur Rehman(2012) analyzed the relationship between budget deficit and economic growth. For the purpose, an application of unit root test and OLS model using home country dataset of budget deficit and output growth for the period 1978 to 2009. The negative impact of the budget deficit on the economic growth is because governments are short of the resources to meet their expenses in the long run. Their savings as well as revenues are not enough to meet their expenses. Different development projects started by the governments on the one hand increase their growth, but on the other hand make the administration in jeopardy to meet the actual expenses (including some unforeseen expenses).

Hayati and Rahaman (2012) This paper discusses on the relationship between budget deficit and economic growth. While Keynesian economies claimed that these two series are positively related. The neo classical economies claimed the opposite. Meanwhile, the Ricardian equivalence hypothesis argued that there is neutral relationship between budget deficit and economic growth. The objective of this paper is to investigate the relationship between budget deficit and economic growth from

Malaysia's perspective. Four variables were used namely real GDP, government's debt, productive expenditures and non productive expenditures. ARDL approach is used to analyze the long run relationship between all series since it can cater for small sample size. By using quarterly data from 2000 to 20011, it was found that there is no long run relationship between budget deficit and economic growth of Malaysia, consistent with the Recardian equivalence hypothesis. However, productive expenditure has positive long run relationship with the economic growth. In case if there is a shock in the Malaysian economy, the only variables that can help to converge the economy to its equilibrium is the changes in GDP and productive expenditures. For future recommendation, It is suggested that other researcher will enhance this research by including other developing countries as the sample analyses.

Olabisi and Funlayo (2012) This paper explores the relationship between the composition of public expenditure and economic growth in Nigeria. Government expenditure is expected to be means of reducing the negative impacts of market failure on the economy. However, allocation of public expenditure with lack of consideration for the urgent needs of the country may engender greater distortion in the economy which may be detrimental to growth. To this end, they have analyzed the relationship between public expenditure compositions from 1960 to 2008 on economic growth using the vector Autoregressive models (VAR). The finding shows that expenditure on education has failed to enhance economic growth due to the high rate of rent seeking in the country as well as the growing rate of unemployment. They also noted that expenditure on health and agriculture should be encourage due to their positive contributions to growth while further studies is necessary to indentify empirically why public expenditure on water and education are negatively related with growth.

It is argued that the protection and enforcement of rights and civil liberties entail public costs. Therefore, government spending has a bearing on civil rights. However, the budgetary expenditures needed to protect and enforce one type of right may displace resources that could be used to protect and enforce other rights because of the resources constraints with the government. Viewing this, Luiz de Mello and Randa Sabi carried a study on the little Government Spending Rights and Civil Liberties.

They used sample data taken from some developed and developing countries as an empirical evidence and found the results that the government expenditure on defense, law and order, social security, education and health care are associated with three rights indicators –property rights, equality of citizen before the law and economic freedom. An increase in spending on law and order seems to improve the indicators of rights and civil liberties, and lower budget deficits seem to improve property rights and equality before the law. Furthermore, they found that corruption is associated with worse rights indicators.

2.3 National Perspective

2.3.1 A Brief Review of Previous Research Works

Very few research have been made in this area in Nepalese context; but no research is available analyzing the budgetary policy framework adopted after the restoration of democracy in1990.Whatever the research have been made are also not in depth and details. A few dissertations have been submitted to Tribhuvan University Thesis which is somehow related on this area. An attempt has been made to review some of these dissertations.

Singh (1977) carried out a study under the title of "The Fiscal System of Nepal". He analyzed the trend of revenue and expenditure during the period from FY 1954/55 – 1974/75 and concluded that the expenditure/GDP ratio had increased substantially. This ratio was only 2.44 in 1955 and increased to 10.57 percent in 1975. Another notable finding of It was the rise in the development expenditure/GDP ratio, which increased from 4.07 percent in 1996 to 6.77 percent in 1975. The growth rate of regular expenditure was comparatively slower, rising from 2.13 percent in 1966 to 3.82 percent in 1975.Integrated Development Studies (IDS), a renowned research centre in Nepal, had carried out a study on financing of the public sector expenditure in Nepal in 1987.The study covered a period of a decade from FY 1974/75 to 1984/85.IDS reported that government expenditure had grown more rapidly than that of the country's GDP. Moreover, IDS found that a major feature of government expenditure in Nepal was the dominance of regular expenditure over development expenditure.

Ranjitkar (1987) has made a research entitled 'Budget innovation in Nepal' in 1987.She has attempted to identify the budgetary problems and has suggested some remedial measures to them. It has included some theoretical aspects of budget innovation in developed countries. It has also focused on the structure and the pattern of budget in Nepal. It has used secondary data published by Government of Nepal and has analyzed in a meaningful manner using some common statistical tools. In this study it has attempted to examine the revenue and expenditure and make a critical assessment of the budgetary policy of government of Nepal. She has also tried to analyze the share of external and internal borrowing in the budget of Nepal.

It has recommended that the government should first create an environment in which the innovation could be adopted. In her opinion, the guidelines for innovation as suggested by John C.Bayer might be of great relevance in this connection. Some of the important guidelines enlisted by Ranjitkar are as follows.

1. Integration with decision making: The innovation should be incorporated within the normal decision-making process of budget from the very beginning rather than being initiated as a parallel process to be integrated at a latter stage.
2. Selective introduction: The change has to be introduced gradually with careful phasing over a period of time as the constraints are relaxed.
3. Mitigation of new demands: It is suggested to minimize those changes that involved operating ministries and departments. There is a built-in reluctance to change which can turn to unwillingness to participate if changes are extensive and frequent, are not fully understood, or place new demands on the departments.
4. Institutionalize the innovations: Institutionalize the budgetary innovations so as to make them accepted as a part of the administrative and planning of Government of Nepal.
5. Planning for staff development: It is considered essential to incorporate planning for staff development as an integral component of the entire exercise. It further recommends that the manpower development in Ministry of Finance as well as the line agencies is a precondition for the institutionalization.

Khanal (1988) The study has done by khanal on the basis of time series data from 1965 to 1981 on the topic “Public Expenditure Pattern in Nepal: Growth Pattern and Impact.” Which has the following objectives:

1. To examine the growth and pattern of public expenditures;
2. To explain the public expenditure growth in terms of both demand and supply factors:
3. To examine the impact of public expenditure on the economy in general and private investment, foreign trade, money supply and prices in particular; and

To draw some policy implications to short term economic stabilization and long term development.

This study shows that public expenditure in Nepal had increased for more than the increase in GDP of the country. During his study period, total government expenditure increased by only 2.04 percent; regular expenditure by 8.66 percent and development expenditure by 9.08 percent. It is found that the consumption type of expenditure also expanded at a faster rate. As per the growth rate analysis, Khanal pointed out the social services sectors: Education and health increased in a faster growth than that of other services like general administration and defense.

Sharma (1988) has made a research about the Nepalese budgetary structure. In this study it has attempted to point out some features, prevailing practices and problems of the Nepalese budgetary structure inherent in the Panchayat System. This study covers the time span of twenty-two years from 1964/65 through 1985/86.He has used only secondary data, which are mostly published by the Ministry of Finance and has made an effort to analyze them in a meaningful manner by using some common statistical measures. Mr. Sharma conducted this research to fulfill and to accomplish the following mentioned objectives;

1. To analyze the overall budgetary stricture of Nepal specifically for the period of 1964/65 through 1985/86.
2. To examine the trends in public expenditure, revenue, internal and external borrowings.
3. To access the policies and problems of budget in Nepal.

His work clarifies that the pattern of government expenditure has followed more or less the uniform course throughout the reference period. The regular expenditure on the heading 'loan repayment and interest ' has been enhancing its relative position due to growing reliance of Nepalese budgets on foreign as well as domestic loan. Similarly, in the development budget on the heading 'social services' is scanty through out the reference period except in FY 1964/65.It has been mainly due to the policy of privatization of most consuming sector under social services such as education and health.

Major finding regarding the trend of government expenditure is that it has been increasing both in absolute and relative terms. The increasing pace of government expenditure is higher than that of government revenue. It is not enough to cope with the development objectives and targets as preceded by periodic development plans.

The study comes out vividly from the fact that the called outlay as projected by periodic plans never met by the summation of development expenditure of corresponding period. Thus, he points out a serious problem of widening resources gap existing since the inception of the budget history in Nepal. It has supported this finding with measuring low expenditure ratio and expenditure elasticity. This finds poor tax efforts and negligible contribution from non-tax revenue primarily responsible for the resources gap.

Sharma has measured the elasticity of co-efficient for all taxes heading i.e. direct tax, indirect tax and land tax during the period 1975/76 to 1985/86 is less than unity. The actual performance for collecting the tax revenue shows a downward trend. This fact is supported by the comparative study of elasticity coefficient of these tax heading during the period 1972/73 – 1980/81 and 1975/76 – 1985/86.Though the elasticity of land tax has been seen negative but plays a crucial role for lowering the overall tax revenue in the revenue structure of Nepal.

He concludes that the Nepalese budget has been working in a perpetual financial crisis resulting in excess on external assistance. At the same time Nepal has been experiencing the problem of inefficient and under utilization of available funds. Actually and external capital inflow can not have strengthened the national economy, and Nepal has been restoring to the subsistence economy. It further concludes that that the basis at which Government of Nepal has been building its budgetary evolution is very week and cannot have shouldered these evolutions in the budget of Nepal.

He 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. He observes that government expenditure and revenue both have increased in absolute and relative terms. Government expenditure has increased is greater trend than the revenue. This pace has not been enough to cope up with the development plan objectives and targets as preceded by periodic development plan. There is inadequate mobilization of domestic resources through government revenue. Thus, he points outs a serious problem of widening resources gap existing since the inception of the budget history in Nepal.

Thapa (1996) has described in ‘Deficit Financing in Nepal’ that the deficit financing has important role for economic development. It is more significant and useful in the context of dealing with problem of stabilization. The fundamental virtue of deficit financing is that it helps to reduce the level of unemployment. From the point of economic view, Deficit financing is desirable and will remain a continuous feature in the budget of developing countries and so in Nepal. However, deficit financing is inflationary and therefore, it must be within the desirable limit. After analyzed the deficit financing in Nepal, It found the budget and fiscal deficit is widening over the study. So, it is suggested that the fiscal deficit should be at level of 7 percent of GDP where as the level of budget deficit should be at around 5 percent of GDP.

Upreti (2000) had conducted a research on the topic "Some Aspects of Public Expenditure in Nepal (1981-1998)". The time span of the study was 18 years from 1981 to 1998 which covers two distinct political regimes viz. the Panchayat system and the multiparty democratic system. In this study it has attempted to analyze the trend and structure of government expenditure to find out the major priority sectors identified by the government. He has also tried to study its impact on employment and production using some economic models. Some of the major findings is as follows:

1. The growth of public expenditure in Nepal has taken place mare rapidly than the growth of GDP of the country in both pre liberalization and post liberalization periods. The higher relative growth of regular expenditure than development expenditure in post liberalization period explains the increasing consumption expenditure. Although the rate of investment has been growing faster in post liberalization reflecting the private sector's participation. The private sector is attracted mainly towards the selected areas.
2. Neither structural adjustment nor the liberalization process has been fully successful in achieving some of the economic goals such as reducing deficit and the resources gap. Furthermore, the government lacks the strong commitment, clear vision and sufficient assessment necessary to apply liberalization and privation in Nepal.
3. The inconsistency between planning and budgeting of public expenditure is due to the setting of unrealistic planned, government's inability to collect sufficient resources and to utilize them property in time. On the basis of this study, It concludes that the present expenditure pattern of government in the Nepalese economy is unable to create more resources and to achieve faster economic growth.

Upreti has developed some policy measures that could be considered by the relevant authorities reforming the budgetary policy in Nepal.

1. The government should increase the proportion of productive investment and allocate efficiency unlike its past lit-and miss policy. Therefore, a major reform in planning and budgeting required.
2. The pattern of public expenditure should be re-arranged. The budgetary classification should be done according to the nature of productivity of different sectors. Budget should be properly classified and planning of expenditure should be realistic.
3. The government should be involved in those areas where private sector is still unlikely to go. People's participation should be increased in development activities that help to achieve sustainability and to utilize resources
4. For proper accountability, internal and external auditing and budgetary control should be tightened up.
5. Foreign aid policy should be reviewed. The government should not be keen to obtain foreign aid haphazardly. Foreign aid should be invested in the sectors that generate further income rather than present consumption. The government should be aware of "conditions" attached to aid.

Dahal (2001) examined the impact of budget deficit on the Economic growth of Nepal. For this purpose, he used the secondary time series data stretching from 1974 to 1998. With this data, he performed the empirical study using the Ordinary Least Square Method (OLS). The finding, contrary to the normal belief, established that increase in the budget deficit retards the economic growth. This happens because in the least developed country (LDC) like Nepal the resources generated through the budget deficit are used mostly in the unproductive sectors, thereby causing the detrimental effect in the long run economic growth.

CHAPTER –THREE
RESEARCH METHODOLOGY

Government Budget is the sole tool for the successful implementation of Fiscal Policy. It is the focal point of Government Finance. In its simplest form a budget is collection of documents that refer to the financial condition of the government including information on revenues, expenditure, debt, activities and purpose. Budgeting is one of the universal human experiences. Budget means the estimate of revenue and expenditure during a specific period ordinarily.

Most government policies involve outlays should be reflected in the budget. Budgeting is technically and politically difficult for all countries, but particularly so for less developed countries. Above all, their governments tend to embrace objectives that are ambitious in relation to the means available for their attainment. The scarcity of means is indicated by low per capita national income and by conditions that result in low productivity and inefficient markets. Other forms of scarcity that complicate budgeting in the majority of less developed countries are a shortage of civil servants who are well trained and experienced in financial and economic matters and a lack of systems to provided needed information. The cyclical instability to which primary-producing countries are subject is a hazard to revenue forecasting; if the government attempts to use fiscal policy to mitigate such instability, heavy demands are placed on the budget process. Economic planning, which is widely considered essential to accelerate development, gives rise to problems of co-ordination between planning in the broad sense and budgeting.

3.1 Research Design

This study is primarily based on secondary data descriptive, analytical as well as quantitative approaches are developed to examine the issues. The study is an examination and evolution of the budgetary policies as incorporated in the budget documents presented by the governments in Nepal after the restoration of multi-party democratic in 1990. Therefore, the study is mainly related with the various budget speeches. The data information and policies extracted from the budget documents have been tabulated and presented in meaningful order. Different statistical and other models have been tabulated and presented in meaningful order. Different statistical and other models have been applied to interpret the data and to come into conclusion. Among them trend analysis has been made extensively. Besides these quantitative data presentation, this study also possesses qualitative aspects of the budgetary policies; their implementation and actual outcomes.

3.2 Nature of Sources of Data

The main sources of information for this study are based on published secondary data mainly the budget speeches and economic surveys. List of others sources of data are given below.

i. Government of Nepal, Ministry of Finance:

   -Various issues of Budget Speeches, Economic Surveys, detailed account of income and expenditure (Red-book) , and other publications.

ii. Government of Nepal, National Planning Commission:

   -Various issues of plans.

iii. Nepal Rastra Bank:

   -Various issues of Quarterly Economic Bulletin, Economic Report, Current Economic situation of the nation, Government Finance Statistics and other publications

iv. Central Bureau of Statistics:

   -Various issues of Statistical Yearbook, Statistical pocket book and other publications.

v. Centre for Economic Development and Administration (CEDA):

   -Various published research report of CEDA specially the reports pertaining the fiscal affairs.

Others:

-Reports submitted to Nepal Government by international experts Specially submitted by World Bank (WB), International Monetary Fund (IMF), previous research works done by reputed Nepalese institutions and Ph.D. scholars, National and international journals, reports, seminar papers, articles etc Further, extensive library research at TU central. CEDA library, British library, American library and other libraries in Kathmandu have been done.

3.3 Data Collection Technique and Tools

This study is based on the secondary data collection as stated above in 'nature of sources of data collection.' The data information and policies extracted from the budget documents have been tabulated and presented in meaningful order. Linear regression lines are fitted between the variables based on the observed data if it is felt that the linear regression between the two variables exists. Different statistical and other models have been tabulated and presented in meaningful order.

3.4 Presentation and Analysis of Data

This study is based on the secondary data collection as stated above in 'Sources of data and information.' Processing of data has been done in computer using application programs like MS WORD, MS EXCE and SPSS programs etc. Some relevant statistical, accounting, mathematical and financial tools have been applied in analysis and interpretation. Presentation has been made in the form of tables, graphs, charts and figures etc.

CHAPTER - FOUR

THE PROCESS OF BUDGET FORMULATION IN NEPAL

Budget is a part of economic plan. Therefore, while formulating budget it is necessary to determine resource allocation in conformity with the objectives, policies, programs and strategies setting in the plan document.

4.1 Preview of Budgetary System

The budgetary system is governed by a budget cycle comprising four phases:

Phase I:Preparation

Phase II : Enactment or legislation

Phase III : Execution

Phase IV : Auditing

The first cycle of budget takes several months for preparation , but in developing countries budget is prepared within a period of a few weeks(due and Friedlander , 1977.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. The demand for additional expenditure submitted by all government agencies at districts and the center is complied by respective sector ministries and forwarded to ministry of finance (MOF) for its scrutiny and approval. Thereafter, MOF will forward the estimated budget to NPC and the cabinet for their approval.

The second phase of budget cycle is of enactment or legislation. Upon receiving approval for the cabinet, the finance minister will place the budget before the parliament for its ratification. Then budget becomes a legal document. The third cycle of budget is known as a phase of execution. Budget is released thrice in a year to departments of Government of Nepal ,ministries and constitutional bodies directly through the Financial Comptroller General Office (FCGO) and to local offices under government of Nepal through district treasury office (DTO).The last phase of budget cycle is auditing , which the responsibility of Office of the Auditor General(OAG). Each year auditing is organized by the OAG for all government offices and transaction, its report is presented to the president, and finally it is placed before the parliament.

For a number of years budget in Nepal was classified under two categories (a) Regular Budget, and (b) Development Budget. However, this has been adjusted to international classification of current budget and capital budget from current FY 2004/05. The major headings under current budget are expenditures on consumption expenses, office operation and service expenses, grants and subsidies, service and production expenses and contingency expenses, principal and interest payments on domestic and foreign loans. Likewise, items falling under capital expenditure are capital transfer, capital formation, investment in share and loan, and capital grants (budget speech, 2003/04).

The national planning commission (NPC) determines the size of capital/ development expenditure in conformity with the policies , programs and priorities envisaged in the national plan and also by considering the extend of external borrowing both bilateral and multi-lateral grants and loans as well as domestic borrowing available to treasury during the given FY. The capital /development budget includes all the expenses of development project-ongoing and new. Expenditure on capital projects, training, research, exploration and improvement of infrastructure are classified as development expenditure. Projects / programs / activities supported by external assistance are also reflected in the development budget. The magnitude of current / regular expenditure is estimated on financial ceilings provided by the ministry of finance (MOF) and the NPC. Conventionally, inflation is adjusted to normal growth while setting the expenditure target with respect to current expenditure and, therefore, there is limited scope to expend the size of current budget in a resource scarce economy where tax elasticity and voluntary compliance on the part of taxpayers are very low.

4.2 Budget Formulation Process

Budget Cycle Phase I: preparation

The process budget formulation begins with resource estimation. Activity starts at ministry of finance (MOF) with the resource committee (RC) comprising vice chairperson of nation planning commission (NPC) ,member of NPC-macro sector ,government of Nepal Rastra bank (NRB),financial comptroller general and MOF secretary .The RC determines the size of the budget by analyzing overall economic situation of the country with help of macroeconomics indicators. Resource estimate comprise estimate revenue, foreign loan foreign grand and domestic borrowing .upon accomplishing resource estimation, the resource committee sets the ceiling for budget for the next fiscal year .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 the programs for forth coming Fiscal year and provide necessary guidelines to the concerned ministry and the ministry of finance, prior to sending of the circular for preparation of budget (budget manual, 2057) in the mid fiscal year, the ministry of finance issues budget circular to all sector ministries and constitutional bodies directing them to prepare the budget with following information:

- Ceiling of funds including external assistant available for each ministry of 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.
- Manuals to be used for resources allocation for the various budget headlines.
- Immediately upon receiving the circular, budget preparation at the ministry level begins from the project level to be followed by a detailed discussion and scrutiny in the planning division of the ministry. Estimation of foreign aid is done on the following basis:
- Review of project documents including project agreement ,minutes of understanding (MOU) staff appraisal report, master plan of operation, etc
- Discussion and interaction with the counter parts donors held at the ministry to identify weather their commitment along with the government counter parts funds are currently reflected
- With all this information ,the respective ministry submits the budget proposal and the annual program –one copies each to NPC and MOF in the beginning of third trimester of the fiscal year

The first round of budget discussion takes place at NPC in the case of capital/development budget in April /may participative by the line agency staff along with NPC and MOF staff ,when the proposed program is critically examined in the perspective of policy guidelines and the circular and the MOF staff, assess the aid-involved projects in the context of the conformed and unconfirmed commitments of the respective donors . The discussion at NPC refers to:

- Projects to be funded under external assistance are retained as far as possible.
- There are some cuts and adjustment when grant assistance needs counter parts funding.
- Projects not supported by firm commitment or those, which depend up on availability of funds are taken out.

Although no donors are invited in the budget discussion at NPC, they get all these feedback from their counter parts staff .it the discussion goes against the interest of donors, they can influence the process at the policy level . The final round of discussion takes place at MOF, replacements by the concern ministries /department/project and NPC staff and features the following:

- Interaction takes places with the concern project /ministries /department to conforms donor's commitment to the project
- Projects needing counter parts funding are examined critically when MOF often makes unilateral cuts, reduces government computer parts funding budget and raises aid portion without informing the respective donors.
- Donors keep an open eye on these cuts and some donors may export pressure through the concern ministry and secretaries not to deviate from the original proportion and maintain at list the counter parts funding specified in the project document.

In view of all these factors specified above, MOF prepares a statement of expenditure (red book) containing description of all estimated expenditure for each sector ministry, which would be ready by June /July .during this place considerable pressure may come from the politician particularly the MPs and DDC chairmen, to adjust development programs to their constituencies resulting in bigger size of budget in excess of available resources.

The role of revenue consultative committee (RCC)set up at the national level under MOF is also is significant particularly in the content of attending through ,equity and stability objectives of taxation .the RCC is an apex body to provided recommendation for designing polices ,determines tax based and tax rates ,sating the level of exemption the personal and business deductions .

In fact it can be summarized at the following points:

1. Estimates of revenue and expenditures of the government by MOF with the help of NPC.
2. Hiring projects and proposal from line ministries NPC and their local bodies.
3. Compile the project proposal and planning after receiving from respective ministries and their local bodies.
4. Prioritized the project proposal according to their needs and effectiveness for general people.
5. Preparation of final document after prioritized.

Budget cycle phase II: Enactment /legislation

The process of budget enactment starts with budget speech by the finance minister at the joint session of parliament in the second or third week of July, followed by brief discussion of the underline budgetary principles and policies in both houses and ending with the finance minister's reply before the end of the fiscal year which generally starts in mid-July .The minister also submits an appropriation bill and the finance bill to the parliament. During this period MOF also prepares the source book on foreign aid (development budget source book, 2003) showing the contribution of HMG and donors to the respective programs. After the presentation of appropriation bill, the finance minister presents the advance bill seeking authorization to release certain fixed amounts to the government till the budget is passed.

The appropriation bill is accompanied with a description of programs and their regional distribution (red book). The discussion in parliament lasts for one and a 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 becomes an act.

Budget cycle phase III: Execution

The process of fund release starts with the approval of the budget by the parliament. After the parliament approves the budget, the budget implementation requires two further steps. They are (a)Finalization of work programs consistent with the ratified budget for each spending unit by the respective line ministries and their approval by the NPC ;and (b) Delegation (through official notification) of authority to spend by the secretary of finance to sector ministries and then to project managers . These procedures unnecessarily hold up implementation for several weeks , and very little work is carried out in the first trimester of the fiscal year .Immediately after completion of the discussion on the underlying principles and policies , the finance minister puts before the parliament the vote on account bill, which authorizes the government to spend a specified amount in advance. The process for releasing budget is given below:

- Whereas up to one-third of the previous year's expenditure was often released under the advance bill before , the government can advance up to one-third of the budget for core projects , two-thirds or one-sixth for remote projects and one-sixth for regular and other programs .Subsequent release can follow after the appropriation bill gets royal assent.

- Budget release will be maid on a monthly basis. In the past, trimester budget release was in practice. However , the Financial Comptroller General Office (FCGO) has maintained the trimester and lump sum systems for subsidies (DDC, VDC, Education, Health, Public corporation ,Companies),controlled budget(Medical care, Gratuities) and others.
- For donor –funded projects, budget will be released on a pre-funding (donors have to put deposit to government 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 system of impress account and special account established under ADB and world-bank –financed projects have also been maintained under which the project authority can withdraw directly from the said account.

The budget release system, however, is not automatic. Its release is subject to the following conditions:

- After the approval of the appropriation bill , MOF will inform the entire sector ministries on the project details of the approved budget , and send the source book on foreign aided projects and letter of authority for all expenditures to all line ministries, the FCGO and auditor general's office (AGO) .Line ministries also forward such budget details and authority letter for expenditures through their concerned department/project coordinator office (PCO) to the district line agencies with copies to the FCGO and each district treasury office(DTO) .
- The department /PCO prepares the unit –wise program supported by budgetary details both source-wise and item-wise and forwards it to the NPC and line agencies .In that process , the center level projects will be approved by the NPC and the district level projects by the ministries concerned .
- After the approval of the program as mention in (a)The department /PCO will make available to each unit under it the program and budgetary detail .Then each project unit and PCO submit the monthly release request form along with copies of the approved program and authority letters giving budgetary details to the nearest DTO .

The FCGO and DTO play an important role in the budget release process. The DTO's process all request and will release the funds requested to respective agency's bank account.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) The FCGO releases funds on a monthly basis, provided the above mentioned conditions are fulfilled and the budget requests tally with the source book (e)DTO releases the fund only after receiving the statement of expenditure of the previous month from the requesting agency .

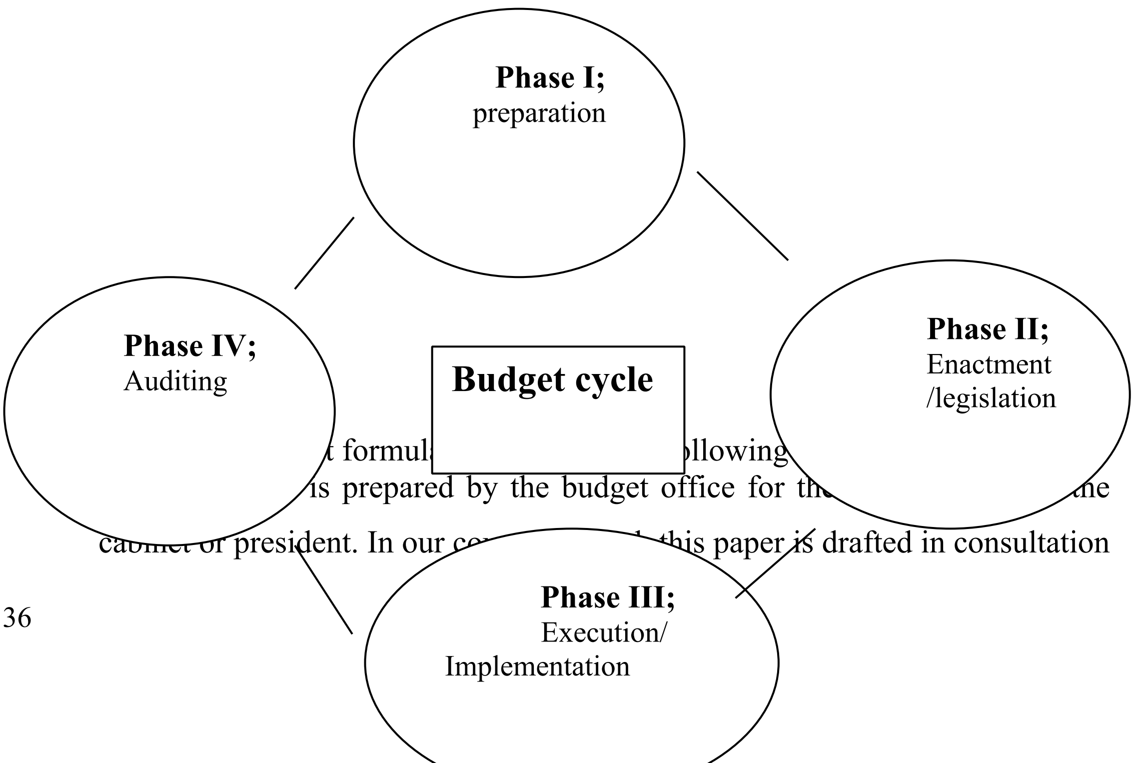
DTO is also empowered to the release the donor portion budget on a reimbursement basis, if so provisioned in the source book. In the case of pre-funding arrangement in the source book, budget is released to the extent of donor contribution available.

Budget Cycle phase IV: Auditing

The last phase of budget cycle is auditing. This is the overall responsibility of the Auditor General (AG) to prepare the annual report after accomplishing auditing of all government transactions. The AG presents its annual report to head of the state, which is later forwarded to parliament for discussion and implementation. Unfortunately, financial irregularities are found at staggering magnitude, which is indicative of growing corruption in government organization. Stringent conditions with severe punishment are required to check financial irregularities. In many SOEs and DDCs auditing is pending for many years, yet there is no action against from the center. There is also growing demand from the civil society that political parties too audit their accounts by the office of the Auditor General and publish in media.

4.2.1 Budget Cycle

Budget formulation consists of the four steps or phases, which are also known as budget cycle. Budget cycle can be shown the following chart:



t formul llowing
is prepared by the budget office for th ne
cabinet or president. In our co this paper is drafted in consultation

with the national planning commission. The paper includes projections of the revenues of expenditures and outlines major alternative proposals for change during the coming year.

2. The cabinet or the president makes provisional decisions on the total amount of expenditures, on major new spending projects or outbacks and on major tax changes.
3. The budget offices issues guidelines for the spending departments to follow in making their requests.
4. The budget office and the representatives of the spending departments discuss requests and attempt to research agreement on them.
5. The budget office presents recommendations to the minister of finance ,who places there before the cabinet after reviewing them.
6. Decision on expenditures and any necessary changes in taxation are made by the cabinet or the president.
7. Spending departments have an opportunity to appeal their allocations seriously inadequate.
8. Final decisions are made by the cabinet or the president.
9. The budget proposals are submitted to the legislature.
10. The legislature considers and approves the budget by adopting one or more acts.

Mind that when the process of budget formulation is completed, we have across the second phase of budget cycle. This can be shown in the following chart.

Different organization/department /local bodies — Line ministry — Ministry of finance

Cabinet

National planning commission

Parliament

In Nepal the process of budget formulation is likely to be compressed [illegible] of few weeks. The process of budget formulation a bit differen[illegible] [illegible]t takes the following steps

1. [illegible]ferent departments /organizati[illegible] sent the budget estimation of their departments/organizations/local bodies.
2. The line ministry aggregate them and sent to ministry of finance. It involves the estimation of revenue and expenditure of the line ministry in the coming year.

3. Finance minister aggregate them and this document is sent to cabinet and NPC for discussion.
4. Final decision is made by the cabinet.
5. After this, this proposal is submitted in the house /parliament passes this proposal, then the process of budget formulation is finish and enactment process begin.

4.3 Historical Overview of the Annual Budget in Nepal

4.3.1 Review of Annual Budget

The Fiscal policy of government is translated practice by the budget. Thus the budgetary policy occupies an important place in the overall economic policy of the Government. Any change in the socio-political regime remains incomplete unless the budgetary policy of the government also is changed accordingly. The government of Nepal, after the restoration of multi-party democracy has adopted the open and liberal economic policy and in the process it has been repealing the existing restrictive rules, regulations, laws and directives governing the economic policies one after another with a great zeal and vigor. Budgetary policy has also undergone changes to that direction through the very first budget (1991/1992) of the multi party democratic government. In this context, it seems pertinent to study the budget objectives, government commitments and the budget policies to know the trend and direction of fiscal policy .An attempt has been made to review these major aspects of the budget as incorporated in the budget speeches for the period after the restoration of multi-party democratic system in 1990.

Budget 2000/01

The budget for the fiscal year 2000/01 was delivered by the Finance Minister Mr. Mahesh Acharya on the basis of yearly schedule for the eighteen session of the parliament on 30 may, 2000. The real performance and ongoing program has been presented very nicely. The government has provide an annual budget estimate of Rs.91,621,335 million which was 27.25 percent higher than the proposed expenditure 1990/00 revised estimate out of total expenditure, Rs.43.51 billion i.e. 47.48 % has been proposal for regular expenditure and 48.10 billion i.e. 52.52 % for the development expenditure.

The budget of the fiscal year 2000/2001 has the following objectives:

1. To enhance the effectiveness of public resource management;

2. To accelerate economic reform programs; and
3. To improve institutional capacity.

New programs directly reality to poverty reduction, Bishweshwor Among the poor, poverty Alleviation fund and Awakening programs had been launched. The finance minister had vowed scholarship under the "Education for All" scheme was provided to children belonging to all ethnic and tribal, downtrodden classes, students from poor and isolated from the social mainstream for the making education easily accessible for all on national development.

Likewise, the budget had given special emphasis on reform in public expenditure management, reform in the revenue administration, improvement in the effectiveness of foreign Aid loan recovery act the new think had been made for financial sector reform for the first time in the direction of making civil service productive, effective and effective, the finance ministry had announced handsome increment salary to all government employees, including Army, police, civil service Teachers and professors The salary incrementing was based in the recommendation of the pay Commission constituted by HMG/N in 1998. This up scaling of salary was expected to enhance the morals capability and performance of civil servants. Apart from above, the budget presented for fiscal year 2000/01 had given special attention rural telecommunication program to fulfill all Village Development Committed by FY 2002/03.

Budget 2001/02

Budget for the fiscal year 2001/02 was delivered by the finance Minister Dr. Ram Saran Mahat as scheduled for the twentieth session of the parliament on 9th July 2001. The Budget, in short, embodies reform measures Necessary to faster a healthy macroeconomic structure by improving strategies and programmers of those of the economy which are lagging and by consolidation our achievements made during the past democracy restoration year. The annual budget for the fiscal year 2001/02 is estimated at Rs. 99792.219 million of which sum of Rs 49,321.941 Million was allocated for regular expenditure and Rs. 50470.278 Million for the development expenditure. In compare to the revised estimates of the FY 2000/01, the allocation as a whole is highs by 19.9 Percent and as for the regular and development expenditure it is higher by 13.5 percent and 26.9 percent respectively. In compare to the preliminary estimates of the FY 2001/02, total expenditure is highs by 8.9 percent only.

The budget for the fiscal year 2001/02 passes following objectives.

- To reduce poverty by strengthening the liberal and market oriented economic reform Policies pursued earlier for building a healthy and strong economy.
- To achieve broad based sustainable higher economic growth rate by best utilizing available resources.
- To ensure the access of deprived people to benefits created by such growth create opportunities for human development and employment and guarantee the social juices and security.

Source able finance Minister thus had submitted several strategies and sectoral programs so far the overall development of our country. AS per the purposed budget the share of investment in agricultural rural roads, electrification, irrigation and appropriate technology were increased for the commercialization of agriculture and Forestry sector. Even the provision was made to cause the rate by 1 % to promote commercial farming of exportable as well as other cash crops. A high level sick industry Rehabilitation Committee would be formed to rehabilitate the sick industries and tourism business for which financial Administration Rules will be amended and Public Awareness campaign Be self- reliant, consume domestic product "would launched to encourage the consumption of domestic products by the private sector organization and general public. A special two years program, Destination Nepal" would be launched to foster the tourism in Nepal. In order to promote the export trade to a new height export promotion find in collaboration with the private sector will engage in the development of infrastructure and implementation of export promotion program to observe the year 2003 as the 'Export year". To exploit the potential of it sector in famous of export and employment due attention will be paid to the development plan will be prepared and implemented with a view to make the local bodies more accountable through strengthening these institutions. Several arrangements for integrated plan of security and development in the Maoist areas are made the other policies as such to the FY 2000/01 remain same percentage of allocation of funds increased for the poverty alleviation Fund, women, child and social welfare sector, Irrigation sector transportation sector and others.

Budget 2002/03

Mr. Sher Bahadur Deuba, prime minister and finance Minister of the Nepali Congress government had presented this budget. It was presented in such a context that the main goal of this budget was to extend all possible support from the socio-economic indicators, economic trends, features and challenges of the national economic as well as ministry–wise progress report of the programs and the budget have already been made public. While formulating this budget , from the very beginning of this Fiscal year , services sector such as industry ,commerce and tourism were badly affected due to the violent escalated by terrorist until at the end of this Fiscal Year , the economy could not make any substantial turn around due to this fiscal Year , the economy could not make any substantial turn around due to the negative effects unleashed by international terrorism and slow down in the global economic growth .Maintaining Fiscal balance was an uphill task mainly because of the decline in revenue mobilization owing to slow down in foreign trade industry and services sectors , and due to the necessity of appropriating additional resources for maintaining law and order .

During this fiscal year, a outlay of Rs.99792.219 million including 49321.941 million under the development expenditure was appropriated .According to revised estimate under the regular estimate 99.7% of 49149.527 million of the appropriate amount was estimated to decline from 5.9% of GDP in the last Fiscal Year to 5.4 % of Gross Domestic Product (GDP) of this Fiscal Year .

As per the revised estimate, for this Fiscal Year revenue collection would increased by 3.3% to 50515.169 million as against Rs. 48893.561 million revenue collection 2000/01.The revenue collection during this Fiscal Year was 83.8% of the target, Which was 11.9% of the GDP .

Objectives of the target

1. 'Investment of peace ' would be motto as peace and security was the pre-requisite for development ;
2. Accelerate the Peace of the poverty reduction program; and
3. Recovery of the economic from the current crisis through expansion and consolidation of the reform programs.

Budget 2003/04

On behalf of partnership government, Minister 0f Finance, Dr. Prakash Chandhra Lohani had presented the budget of the kingdom of Nepal for the FY 2003/04 to the session of the parliament. The budgetary allocation of Rs 60 billion 555 million as regular (recurrent) and 41 billion 845 million as development expenditures totally Rs 102 billion 400 million had been made for the implementation of these policies and programs of the total allocation Rs. 29 billion 292.9 million was allocated for capital expenditure and Rs 73 billion 107 million for recurrent expenditure. That allocation to capital cost was higher by 9.8% as compared to the allocation of FY 2002|03 and was 38.0% higher than revised estimate.

Of the total recurrent expenditure, 24% or Rs.17 billion 550 million was allocated for domestic and external debt servicing. Similarly 52.7% or Rs 38 billion 500million was estimated to be spent on the payment of the salaries, allowances and pensions of civil, army and police personnel and teachers.

This budget gave a new vision to contribute to political and socio-economic transformation and advancement of Nepalese society through people-government partnership and collaboration. In this budget, it was realized that the government's role in the industrial and other enterprises should gradually be decreased with corresponding increased participation of the private sector. The budget had clearly moved towards privatization.

The budget envisaged the following objectives and strategies

1. Place special emphasis on the programs of poverty reduction, regional balance, employment promotion, and social justice within the frameworks of 10^{th} plan's target , Fiscal balance and policies structures ;
2. Adopt policy of collaboration and partnership among the government people's institutions and organized private sector selection and implementation of development projects;
3. Encourage competition , efficiency and excellence in the economy by discouraging and controlling monopolistic behavior ;
4. Accelerate people–government joint action to ensure sustainable peace ;and
5. Restore confidence of the people on the government's commitment and implementation.

Budget 2004/05

The2004/05 budget was presented by state Minister of finance Mr. Bharat Mohan Adhikari on behalf of all the party government. This budget bear's importance of its own since it is in the light of Medium Term Expenditure Framework (MTEF) 111 billion 689.9 million was estimated to be spent in that FY 2004|05 to implement of the mentioned programs and execute other works & services. Out of total estimate expenditure, Rs 67 billion 608.431 million was allocated for regular expenditure, Rs 31 billion 577.521 was appropria5ted for capital expenditure and Rs 12 billion 503.948 million for debt servicing the proposed regular expenditure for Fiscal Year

2004/05 was up by 19.19% capital expenditure by 29.05% and debt servicing by 14.53% reflecting and increment estimated expenditure of FY 2003/04.

Timely completion of development projects and enhancing their effectiveness, strengthening of the local organization reared to rural development through decentralization and administrative reforms to make the government machinery efficient, clean and accountable to the people were the cardinal aspects of the budget. The major policy thrust of the budget was to develop complementary programs in order to maximize benefit from the economic potentiality that existed in the rural areas. The objectives of such a program was to improve the economic conditions of the poor and disadvantaged groups, large majority of whom live in rural areas.

The current plan contained objectives of attaining a sustainable economic growth rate, the alleviation of poverty and maintaining regional balance. And the basic foundations of the development philosophies of plan were rural development decentralization and people's participation. This budget seems to be based on this theme. In order to realize the overall of the plan, this budget has laid down development policies and programs by categorizing them into four policy based groups as stated below:

Objectives

1. Restoration of Peace , relief , Rehabilitation and reconstruction :
2. Social economic transformation and progression :
3. Judicious access to resources and opportunities ,and Devolution authority ; and
4. Additional support to poverty alleviation program by enhancing economic activities and creating mass employment opportunities through economic reforms investment promotion.

Budget 2005|06

Mr. Madhukar Shumsher J.B. Rana, the finance minister of the government presented the budget of the kingdom of Nepal for the FY 2005|06 the actual expenditures of the government of the expenditures totaled Rs.110 billion 889.2 million, of which the recurrent expenditures were Rs 67 billion 17.8 million, capital expenditures were Rs.67 billion 17.8 million, capital expenditure Rs.29 billion 606.6 million & repayment of dept principal Rs.14 billion 264.8 million.

The medium term vision of this budget was to create foundation for prosperous new Nepal, within three years, by contributing to the political, Social and economic sectors and by reducing the level of poverty, Mainly in the period of three years:

1. Peace would be restored ;
2. Economic stability would be maintained in order to attained higher economic growth rate ;
3. Representative political institutions would be developed to make Nepal transit economic between India & China.

The main mission of this budget of this budget was to put into a respectable position in the country of the nations by restoring peace, achieving prosperity and reactivating democracy by means of pursuing market oriented policy and protecting people's lives & property level to below percent & meeting the Millenium Development Goals (MDGs)

The main objectives of this budget were as follows:

1. To invest for the restoration of the peace ;
2. To pave for stabilization of private sector in a leadership role in the development of economic sector ; and
3. To improve the economic, human and Social indicators of the ultra poor and deprived groups.

It was estimated to achieve the macro-economic growth of 4.5% with an increase in 4.0% in agriculture & 4.8% in non–agricultures sectors in FY 2005/06. Similarly , inflation narrow money supply and broad money supply would be expected to remain at his rate of 4.9% 12.00% % 13.00% respectively .Revenue mobilization would be expected thus at 14.10% of the Gross domestic product after policy related changes in the revenue % the administrative reforms.

Budget 2006/07

Finance minister Dr. Ram Sharan presented coalition government in the house of representative at the strength of people's movement after a parliament vacuum of the four years. The budget for FY 2006/07 was of Rs. 131 billion 851 million of which recurrent expenditure would reach Rs 80 billion 331.1million, capital expenditure Rs.36 billion 379.9 million and repayment of dept principal Rs 15 billion 140 million.

Following were the objectives & priorities of this budget:

1. To institutionalize the democratic system;
2. To develop economic infrastructures
3. To improve investment climate;

4. To make economic programmes pro-poor and inclusive;
5. To implement programmes for relief, rehabilitation and reconstruction :and
6. To increase capital investment & productivity by containing consumption expenditures.

Budget 2007/08

Dr. Ram Sharan Mahat, finance Minister of the interim government after second historical people's revolution & the peaceful commitment process between Nepal govt.& Maoists , presented the budget for 2007/08 to the interim parliament. The 168 billion & 995.6 millions budgets included Rs 98 billion 172.4 million and 91 thousand has been expected for recurrent expenditure and Rs.55 billion 261.6 million & 82 thousand for capital expenditure. And Rs.15 billion 561.4 million and 27 thousand for principal repayment. This estimate is higher by 17.14 % as compared to total allocation of FY 2006/07 & 28.2% higher than revised estimate of the same period. The revised expenditure as compared to estimate 22.2 higher in recurrent expenditure and 51.9% in capital expenditure, & 2.8 in repayment of the principal .

Of the total expenditure of Rs.93 billion 743 million and 45 thousand has been earmarked for general administration, & Rs.75 billion 252.5 million and 55 thousand for development programs.

Out of the total estimated expenditure Rs.009 billion 605.9 million and 56 thousand will be borne from current source of revenue, Rs. 27 billion 460.9 million & 14 thousand from foreign grant & Rs.017 billion 367.4 million 44 thousand will be mobilized from foreign aid. However, despite resource mobilization from these two sources, there will be difficult of Rs.24 billion 561.3 million.

The budget of the Fiscal Year 2007|08 had the following objectives:

1. The sustainable peace, stability & strengthening of the Democratic system,
2. Poverty Alleviation & Economic prosperity
3. Investment Promotion ;
4. Human Development; and
5. Reconstruction, Rehabilitation & Relief.

Budget 2008/09

Dr. Baburam Bhattrai , finance minister of Maoists lead government after the election of constitutional assembly presented his budget on constituent assembly on 19th

September,2008 for the fiscal year 2008/09. The Maoist lead government is also a coalition government, thus his budget also on the base line of Dr,Mahat budget and nothing extra ordinary on it because the main objectives of the budget is to maintain peaces and security throughout the nation by setting down Maoists combatants.

The government expenditure in the fiscal year 2008/09 totaled Rs. 219,661.9 million. Out of that total expenditure, revenue mobilization financed 65.3 percents, foreign grants 12.0 percents, foreign loan 4.5 percent, domestic borrowing 8.4 percents while change in reserves shared 9.8 percent. The recurrent expenditure in the fiscal year 2008/09 totaled RS.127738.9 million, which is 39.7 percent higher than that of the previous year, which was RS.91446.9 million for the previous fiscal year. Of the total recurrent expenditure in the fiscal year 2008/09, major portion of such expenditure (RS.47437.9 million) was on health, education, drinking water, local development and other social services

Capital expenditure in the fiscal year 2008/09 rose by 36.6 percent compared to the previous fiscal year totaling Rs.73,089.0 million. Such expenditure in its preceding year was Rs.53,516.2 million. And in the fiscal year 2008/09, interest repayment on principal stood at Rs.18,834.1 million. Such expenditure was Rs.16,386.9 million in the previous fiscal year of the total principal repayment expenditure, the share of principal repayment against domestic borrowing remained at 46.3 percent and that of foreign loan 53.7 percent in the fiscal year 2008/09 .when compared to the previous fiscal year, principal repayment in the fiscal year 2008/09 against domestic borrowings has increase by 2.3 percent while that of foreign loan has decrease by 34.9percents.

The budget of the fiscal year 2008/09 had the following objectives :

1. Making democracy more people –centered with the institutionalization of the federal democratic republic.
2. Sustaining peace in the country by bringing to logical conclusion the peace process on the basis of the comprehensive peace Accord (CPA) agreed between the Nepal communist party (Maoist) and the seven political parties.
3. Accelerating the process of economic and social transformation to accomplish the great mission of building just, advanced and prosperous new Nepal.
4. Achieving higher economic growth that comes along with geographical and regional balance, social justice and employment opportunities.

5. Providing immediate relief to the people to make them fell that the country has really become a republic.
6. Erecting foundation of a self-reliant and independent economy through optimally mobilizing the national capital and indigenous resources

Budget 2009/10

Mr.Surendra Panday, finance minister of the coalition government presented his budget in the constitutional assembly for the fiscal year 2009/010 on Monday 13th July 2009.He has nothing change in his budget due to coalition government. The total expenditure of Nepal government in the fiscal year 2009/10 was Rs.259.69 billion. Of this.58.2 percent was recurrent and 34.7 percent capital expenditure while 7.1 percent accounted for repayment of principal.

The government expenditure in the fiscal year 2009/10 totaled Rs.259.69 billion. Out of that total expenditure, revenue mobilization financed 69.3 percent, foreign grants 14.8 percent, foreign loan 4.3 percent domestic borrowing 11.5 percents while change in reserves shared 0.02 percent. The recurrent expenditure in the fiscal year 2008/09 total Rs.151.19 billion which is 18.2 percent higher then that of the previous fiscal year, as compared to Rs.127.74 billion. Of the total recurrent expenditure in the fiscal year 2009/10, major portion of such expenditure (RS.62.43 billion) was on education, health, drinking water, local development and social services

Capital expenditure in the fiscal year 2009/10 rose by 23.5 percent compared to the previous fiscal year totaling RS.90.24 billion. Such expenditure in its preceding year was RS.73.89 million and in the fiscal year 2009/10, interest repayment on principal stood at RS.18.43 billion. such expenditure was Rs.18.83 billion in the previous fiscal year of the total principal repayment expenditure, the share of principal repayment against domestic borrowing remained at 14.7persent and that of forging loan 58.4 percent in the fiscal year 2009/10 .when compared to the previous fiscal year, principal repayment in the fiscal year 2009/10 against domestic borrowings has decrease by 11.8 percent while that of foreign loan has increase by 6.2percents.

Main objectives of the budget were:

1. To facilitate promulgation of the new constitution as per the people's expectations and bring the peace process to an end
2. To create employment by encouraging roles and investments of the co-operatives ,private and public sector pursuant to the concept of inclusive development

3. To emphasize the development of large physical and economic infrastructure for rapid economic growth.
4. To intensify the relief ,reconstructions and rehabilitation for the conflict affected, and
5. To provide relief to the people by controlling prices and facilitating supply system.

Budget 2010/011

Mr. Surendra Pandey, finance minister of coalition government delivered his budget on the constituent assembly on 12 July 2010 regarding the special arrangement for revenue and expenditure for the fiscal year 2010/11.Total expenditure of Nepal Government in the fiscal year 2010/11 was Rs 295.36 billion. Of this, 57.7percent was recurrent, and 36.5percent capital expenditure while 5.8 percent accounted for repayment of principal.

The total government expenditure that increased by 18.2 percent in the fiscal year 2009/10 compared to its preceding fiscal year grew by 13.7 percent in the fiscal year 2010/11. Of this, recurrent expenditure had increased by 18.2 percent in the fiscal year 2009/10 while this category of expenditure grew by 12.8 percent in the fiscal year 2010/11.The capital expenditure in the fiscal year 2009/10 had increased by 23.5 percent in the previous fiscal year, which recorded a growth of 19.5 percent in fiscal year 2010/11. The principal repayment had decreased by 6.6 percent in the fiscal year 2010/11 in comparison to its decrease of 2.1 percent in fiscal year 2009/10

Government expenditure in the fiscal fear 2010/11 totaled Rs 295.36 billion .out of that total expenditure, revenue mobilization financed 67.7 percent, foreign grants 15.5 percent foreign loan 4.1 percent domestic borrowing 14.4 percent while change in reserves stood at -1.7 percent. Recurrent expenditure in fiscal year 2010/11 totaled Rs 170.29 billion, which is higher by 12.8 percent compared to the previous fiscal year. Recurrent expenditure in fiscal year 2009/10 was Rs 151.02 billion. Of the total recurrent expenditure incurred in the fiscal year 2010/11 education, health, drinking water, local development and other social services absorbed largest share (Rs 70.54 billion).

Capital expenditure in the fiscal year 2010/11 rose by 19.5 percent as compared to the previous fiscal year totaling Rs 107.81 billion. Such expenditure in fiscal year 2009/10 was Rs 90.24 billion. In the fiscal year 2010/11, principal repayment expenditure stood at Rs 17.22 billion. Such expenditure was Rs18.43 billion in the previous fiscal year. Of the total principal repayment expenditure, the share of principal repayment against domestic borrowing remained at 34.9 percent and that of foreign loan 65.1 percent in the fiscal year 2010/11. When compared to the previous fiscal year, principal repayment in the fiscal year 2010/11against domestic borrowing has decreased by21.9 percent while that of foreign loan has increased by 4.4 percent.

In Short:

The budgetary policy measures taken by the coalition government during the period of transition adopts the policy towards liberalization along with providing peace and security to the people of the nation. But these policies are quite inadequate in terms of desired results due to instability caused by Maoists insurgency.

The each and every government in this decade try to establish long term sustainable peace, harmony, investment friendly environment along with prosperous Nepal. But these objectives of the government could not achieve due to frequent change in government and lack of common minimum agenda in politics (Specially in the field of economic policies focused on budgetary policy).

Looking at the expenditure trend of this decade, the share of recurrent expenditure in total expenditure remained close to 60 to 62 percent between fiscal year 2002/03 and 2005/06 while such ratio has declined in subsequent years, which is considered as positive from public financial management perspective.

The share of capital expenditure in total expenditure was about 26 percent between fiscal year 2000/01 to 2005/06 while it shows gradual improvements in the subsequent years reaching 36.5 percent in the fiscal year 2010/011. Similarly, revenue mobilization covered about 63 to 70 percent of the total expenditure up to the fiscal year 2009/010.During this period average gross revenue grew by 17.5 percent, while average growth rate of gross expenditure stood at 17.3 percent. The average fiscal deficit increased by 16.5 percent from fiscal year 2000/01 to 2009/010. During the same period, the share of fiscal deficit in the total expenditure continued to decline from 19.6 percent in the fiscal year 2002/03 to17.6 percent in 2004/05, which has further declined to 16.8 in the fiscal year 2010/011. Of the resources of financing of fiscal deficit in the fiscal year 2002/2003, the share of domestic borrowings was 54 percent. The share of domestic borrowing reached 85.7 percent during the fiscal year 2010/2011.

During the past decade at the coalition government also seems unable introduce new, bold and brilliant measures to mobilize domestic resources. Recently a major feature of budgetary development has been growing dependence on foreign loans for the deficit financing from fiscal year 2004/05 up to 2006/07. In the fiscal year 2010/011, of the sources of finance capital and principal repayments, the share of revenue surplus stood at 23.6 percent, the share of foreign grants 36.1 percent and the share of deficit financing remained at 39.7 percent.

The share of revenue surplus in the fiscal year 2010/011 is less by 3.0 percentage points than that of FY 2009/010 while share of foreign grants is more by 1.2 percentage points. This is not the happy situation for the country like ours which has already borne the foreign debt as 19 percent of total GDP of the country. The past tradition of banking its development expenditure up on foreign assistance could not be broken even democratic as well as coalition government. So much remains to be done in the area of budgetary policy if it has to be made consistent with the overall macro-economic policy.

CHAPTER- FIVE

TREND AND PATTERN OF GOVERNMENT BUDGET

In this chapter an attempts has been made to analyze the trend and pattern of expenditure, revenue, budget deficit of government during the period of 2000/01 to 2010/11.

5.1 Government Expenditure

Government expenditure means the actual expenditure of government during the specific fiscal year. It can be divided into the following headings:

1. Recurrent Expenditure
2. Capital Expenditure
3. Principal Repayment

It is noted here that the terminologies used for recurrent and capital expenditure were regular and development expenditure representing until2003/04. Recurrent expenditure, capital expenditure and principal repayment are used to describe governmental expenditure from 2004/05.

1. Recurrent Expenditure

Recurrent expenditure is one of the major components of total expenditure which is the current expense. Recurrent expenditure is made of various components. It`s main components are expenditure on general administration, social services, defense, economic services, loan, and interest payment etc. Under the heading of miscellaneous other smaller components are included.

2. Capital Expenditure:

Capital expenditure is the public investment and desirable also from the development perspective. This category is of particular importance for the developing countries like Nepal. Capital expenditure is also made of different components.

3. Principal Repayment:

It is the share of internal loan payment and external loan payment. Its share is nominal while comparing with the whole budget as compare to capital and recurrent expenditure. But the repayment of principal in absolute amount is in gradual increasing trend in Nepal.

Nepal being a developing country, there is an urgent need of expanding development expenditure. However, there is also growing compulsion to maintain law and order as well as debt servicing. Financing expenditure requires increment 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 as that of the previous year. (Adhikari, 2004)

5.1.1 Trend of Government Expenditure

Total expenditure of Nepal government in fiscal year 2010/2011 was Rs.2953.6 million. Of this, 57.7% was recurrent, and 36.5% Capital expenditure while 5.8% accounted for repayment of principal. Looking at the expenditure trend of the past years, the share of recurrent expenditure in total expenditure remained close to 60 to 62 % between fiscal year 2002/2003 and 2005/2006 which such ratio has declined in subsequent years, which is considered as positive from public financial management perspective. The share of capital expenditure in total expenditure was about 26% between fiscal year 2002/2003 and 2005/2006 while it showed gradual improvement in the subsequent years reaching 36.5% in the fiscal year 2010/2011.

Table 5.1 reflects the amount of regular, development, principal repayment and total expenditure during the review period. In 2000/01 the total expenditure was only Rs. 79835.1 million that mounted up to Rs. 295363.4 million in 2010/011. This clearly depicts the steady and increasing trend of expenditure in Nepal.

Table 5.1 also shows the amount and percent share of recurrent and capital expenditure in total expenditure during the period of 2000/01 to 2010/011.

The percent share of recurrent expenditure in total expenditure has increase from 57.41 in 2000/01 to 57.66 in 2010/011. Its total amount and percentage share in total expenditure is in increasing trend during review period. When expenditure is analyzed, 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 recurrent expenditure to increase every year.

Similarly, total amount and percentage share of capital expenditure in total expenditure has been increasing from 35.46 in 2000/01 to 36.51 in 2010/011. The total amount of capital expenditure has also been increasing, however, relatively less than that of recurrent expenditure because of the compulsion of expanding infrastructural facilities, social services, economic services etc. The percentage share of developing expenditure in total expenditure is in increasing trend during the review period except fiscal year 2001/02, 2002/03 and 2003/04.

The fiscal year 2003/04 in which the percentage share of recurrent expenditure in total expenditure is the greatest than that of capital expenditure in the study period which shows the consumption nature of government.

In the same fashion, recurrent expenditure heavily increased during the review period. In absolute term it has risen from Rs. 45837.3 to Rs. 170295.4 million in 2010/011. The percentage share gives clear idea of the very trend of recurrent expenditure. However, small fluctuation is seen in the share of recurrent expenditure to total expenditure. The capital expenditure of government has increased slowly as compared to recurrent expenditure. In absolute term, it has moved up from Rs. 28307.2million to Rs. 107847.5 million from fiscal year 2000/01 to 2010/011. The percentage share of capital expenditure to total expenditure shows a continuous decreasing trend up to 2003/04. Then it has also a fluctuating in nature. The annual percent change of total expenditure, capital expenditure and recurrent expenditure is also shown in table 5.1. All these expenditure heads have fluctuating trend. But in capital expenditure there is also have negative annual percentage change in the fiscal year 2001/02 and 2002/03. Such types of allocation of budget in development slow down the development activities. Such scenarios of expenditure took place in the Nepalese budgetary history because of insurgency and political instability in the country. But such negative growth rate of capital expenditure has not been taken place since fiscal year 2002/03. In the final fiscal year of review period the annual growth rate of budget in development is19.5percent.

Table 5.1Government Expenditure (Rs. in million)

Fiscal Year	Recurrent Expenditure	Annual % Change	Capital Expenditure	Annual % Change	Principal Repayment	Annual % Change	Total Expenditure	Annual % Change		% share of Total Expenditure		
									R.E.	C.E.	P.R	T.E.
2000/2001	45837.3	28.8	28307.2	11.1	5690.6		79835.1	20.5	57.41	35.46	7.13	100
2001/2002	48863.90	6.6	24773.40	-12.5	6434.90	13.1	80072.20	0.3	61.3	30.94	8.04	100
2002/2003	52090.50	6.6	22356.10	-9.8	9559.50	48.1	84006.10	4.9	62.01	26.31	11.38	100
2003/2004	55552.10	6.6	23095.60	3.3	10794.90	12.9	89442.60	6.5	62.11	25.81	12.07	100
2004/2005	61686.40	11.0	27340.70	18.4	13533.30	25.4	102560.40	14.7	60.15	26.66	13.19	100
2005/2006	67017.80	8.6	29606.60	8.3	14264.80	5.4	110889.20	8.1	60.44	26.7	12.86	100
2006/2007	77122.40	15.1	39729.90	34.2	16752.30	17.4	133604.60	20.5	57.72	29.74	12.54	100
20007/2008	91446.90	18.6	53516.10	34.7	16386.90	-2.2	161349.90	20.8	56.68	33.17	10.15	100
20008/2009	12773.89	39.7	7308.90	36.6	18834.1	14.9	219662	36.1	58.15	33.27	8.58	100
20009/2010	15101.91	25.1	9023.77	90.4	18432.3	-2.1	259689.1	18.2	58.15	34.75	7.10	100
2010/2011	17029.54	12.8	10784.75	19.5	17220.5	-6.6	295363.4	13.7	57.66	36.51	5.83	100

Source: Economic Survey, Fiscal Year 2011/2012 MOF G/ N

Recurrent Expenditure

According to the budgetary classification of public expenditure, expenditure can be divided in two heads i.e. recurrent expenditure and capital expenditure. Hence recurrent expenditure has also various components. The main functional components are constitutional organs, general administration, revenue administration, economic administration and planning, judicial administration, foreign service, loan and investment, loan repayment and miscellaneous. The table shows that the composition of recurrent expenditure they are loan repayment and interest, social service sector, general administration ,defense, miscellaneous and economic service sector the larger share of recurrent expenditure is made the share of these sectors are given respectively. In Table 5.2 the expenditure on economic service reached to Rs.17789.2 million in FY 2010/011 from Rs.1631.1 million in FY 2000/01. The expenditure on social service sector reached to Rs.70541.7 million in FY 2010/011 from Rs.10882.2 million in FY 2000/01.Interest payment was to Rs.12737.1 million in FY 2010/011 from Rs.4697.8 million in FY 2000/01.The expenditure on general administration was Rs.22209.0 million in FY 2010/011 from Rs.6258.4 in FY 2000/01.The expenditure on miscellaneous was Rs.21009.8 million in FY 2010/011 from Rs.9912.6 million in FY 2000/01 .The expenditure on defense reached to Rs.17410.3 million in FY 2010/011 from Rs.3813.4 in FY 2000/01 Similarly the expenditure on others was to Rs.7127million in FY 2010/011 from Rs.2164.9 in FY 2000/01.In this way from the given table 5.2 we can see that the recurrent expenditure on different heads has been increasing.

Table 5.2

Structure of Recurrent Expenditure in Different Heads (Rs in million)

FY	Economic service	Social service sector	Interest payment	General administration	Defense	Miscellaneous	Others

2000/01	1631.1	10882.2	4697.8	6258.4	3813.4	9912.6	2164.9
2001/02	5795.10	16953.10	5570.30	7140.10	5264.80	6299.40	2521.9
2002/03	5078.50	18886.90	6621.80	7335.30	6168.30	5723.50	2726.3
2003/04	5512.80	20808.50	6543.90	7325.30	6629.60	6408.90	2807.7
2004/05	7167.80	23208.80	6218.00	8226.30	8580.30	5651.50	3193.7
2005/06	7529.80	25382.60	6158.70	9269.50	9706.00	6006.80	5073.2
2006/07	8384.80	29497.60	6164.00	11079.00	10128.90	7900.50	5712.1
2007/08	9200.7	35073.22	6373.68	13941.74	10564.94	11677.99	6423.8
2008/09	12052.6	47437.9	8154.2	16860.3	13748.4	24513.2	4972.1
2009/10	14927.3	62394.7	9981.3	19574.6	16576.0	21599.2	5966
2010/11	17789.2	70541.7	12737.1	22209.0	17410	21009.8	7127

Source: Economic Survey, Fiscal Year 2011/2012 MOF N/G

Capital Expenditure:

The capital expenditure has also various components. i.e. general administration, economic administration and planning, social services, economic services and miscellaneous and others as the table 5.3 shows that expenditure on economic services was Rs.17745.1 million in fiscal year 2000/01. it is declined to Rs.13562.1 in FY 2001/02 the rate of expenditure is not stable in different Fiscal Year. The expenditure on economic administration and planning reached Rs.169.2 in FY 2010/011 from Rs.17.4 million in FY 2000/01.The expenditure on Social service was Rs.45591.1 in FY 2010/011 from Rs 8489 million in FY 2000/01.The expenditure on General administration reached to Rs.1776.2 million in FY 2010/011 from Rs.965.8 million in FY 2000/01.The expenditure on miscellaneous was Rs.3495.6 in FY 2010/011 and Rs.642.4 million in FY 2000/01.

Table 5.3

FY	Economic Service	Economic Administration and planning	Social service sector	General Administration	Constitutional organization	Miscellaneous
2000/01	17745.1	17.4	8489	965.8	19.8	642.4
2001/02	13562.1	7.6	7927.5	838	11.9	1755.5
2002/03	12561.0	3.4	7075.9	581.3	16.8	875.6
2003/04	13129.0	8.9	7135.2	578.1	36.7	172.1
2004/05	15394.0	24.2	7940.7	883.6	37.7	435.3
2005/06	14797.1	20.3	10151.8	1181.7	96.1	13.60
2006/07	17938.9	26.8	15529.3	4512	45.3	223.1
2007/08	20840	79.8	20283.6	1773.5	96	906.3
2008/09	31999.9	47.2	34056.8	1781.7	84.7	3002.9
2009/10	42968	86.8	36495.2	2006.6	71.6	3563.7
2010/11	45615.3	169.2	45591.1	1776.2	105.3	3495.6

Structure of Capital Expenditure in Different Heads (Rs in million)

Source: Economic Survey, Fiscal Year 2011/2012 MOF N/G

Figure 5.1

Trend of Government Expenditure (Rs. In millions)

Source: Economic survey, Fiscal Year 2011/2012

5.2 Government Revenue

To meet the requirement for day to day administration and development, government collects resources through various sources. The principal among them are tax and non tax revenue sources. But limited growth of economy with low level of income as well as the rate of saving in Nepal makes the exercise of collecting tax revenue insufficient for government expenditure.

Besides high taxation often adversely affects the private enterprises and contributes to a decline in the investment capacity and there by in employment of the economy.

For developing countries like Nepal, 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; it includes all the income and receipts, irrespective of their sources and nature, which the government happens to obtain during any period of time. In the narrow sense, it includes only these sources of income of the government which are described as revenue sources.

So, it is widely recognized that government revenue is the major source of resource for financing the public expenditure of developing countries. Nepal has also realized this fact. Therefore, Nepal has been making constant effort to increase the revenue in her every budget. The public revenue in Nepal has been increasing continuously but only marginal increase has been evident.

5.2.1 Composition and Trend of Government Revenue.

Table 5.4 below shows the total revenue (tax revenue plus non tax revenue) during the review period. According to table total revenue in absolute term has increased from Rs. 48893.6 million in 2000/01 to Rs. 199819 million in 2010/011. From the trend diagram, it can be seen that it is increasing all the way in the nominal term.

Similarly, table 5.4 shows the trend of tax revenue, which in absolute term has increased from Rs. 38865 million in 2000/01 to Rs. 172777.6 in 2010/011. Non tax revenue, in absolute term has increased from Rs. 10028.8 million in 2000/01 to Rs.27041.1 in 2010/011. It is, as a whole is fluctuating in nature. Table 5.4 shows that the absolute amounts of both sources are increasing annually.

In the initial study period the tax revenue was 79.49 of total revenue where as non tax revenue was only 20.51 percent of the total revenue. The percentage distribution of tax and non tax revenue in total revenue are both in fluctuating trend. Revenue mobilization through tax remained satisfactory in the last two year of the study period. To give continuation to this, challenges are to control the tax leakages especially in VAT and income tax, the two major contribution of the tax revenue. Areas such as expansion of tax base and change tax rates should be reviewed, revised and implemented them in addition to developing programs related to tax education and tax awareness so as to increase revenue mobilization. Similarly, the services delivery by the tax administrator to tax payers needs to be improved. Revenue leakages through the rampant and illegal use of the duty free goods need to be controlled.

Table 5.4

Composition of Government Revenue (Rs. in million)

Fiscal Year	Total Revenue	Tax Revenue		Non tax Revenue	
		Amount	% of TR	Amount	% of TR
2000/2001	48893.6	38865	79.49	10028.8	20.51
2001/2002	50445.5	39330.6	77.97	11116	22.03
2002/2003	56229.8	40896	72.73	13642.9	27.27
2003/2004	62331	48173	77.28	14158	22.72
2004/2005	70122.7	54104.7	77.16	16018	22.84
2005/2006	72282.1	57430.4	79.45	14851.5	20.55
2006/2007	87712.1	71126.7	81.09	16585.4	18.91
2007/2008	107622.5	85155.5	79.12	22467	20.88
2008/2009	143474.5	117051.9	81.58	26422.6	18.42
2009/2010	179945.8	156294.9	86.86	23650.9	13.14
2010/2011	199819	172777.6	86.47	27041.7	13.53

Note: TR= Total Revenue

Source: Economic Survey, FY 2011/2012 MOF N/G

Figure 5.2

Trend of Government Revenue (Rs. in millions)

Soure: Economic survey, FY 2011/2012

5.3 Budget Deficit

Today, budget deficit has emerged as an important tool of financing the government expenditure. Today's government spends more than its revenue to show itself as welfare state. Government sources of revenue are limited but it has to spend more than its revenue in many social, economic and political fronts. So to maintain its imbalance it has to taken resort of budget deficit. In simple words, budget deficit means filling the gap caused by the access of government expenditure over its receipts through various sources. Thus budget deficit regarded as when government spends more then it gets through taxes and other sources of revenues.

Developing countries are characterized by low level of income. It is not possible to adopt force saving for resource mobilization. So budget deficit is being used as a reliable instrument. In the period of Second World War when economy was destroyed, it induced that a useful financial policy should be adopted to recover the economy and deficit financing policy was that.

Hence, budget deficit refers to the way in which the budgetary gap is financed. The government resorts to this method of financing when it is unable to cover its total expenditure through the normal sources of revenue such as taxation, income from the government properties and undertakings, proceeds of loans, small savings, capital receipts and funds as its disposal. Government, in this case, can undertake deficit financing by drawing accumulated cash balance or drawing from central bank or by taking loan from internal and external sources.

Thus, budget deficit is the excess of government expenditure over total receipts. It is also called fiscal deficit and needs to be financed by internal and external sources.

Generally, when current expenditure of the government excess the current revenue it is called deficit budgeting. When we take into consideration not only current receipts but also receipts on capital accounts and we still find a gap between receipts and expenditure, the method of financing used to cover this gap is called deficit financing. So there are two kinds of deficits viz. fiscal and budget deficit.

5.3.1 Fiscal Deficit and Budget Deficit

Fiscal deficit is defined as the difference between total expenditure and total revenue including capital receipts and excluding borrowing and other liabilities. The total revenue is subtracted from total expenditure and the gap between the two is known as fiscal deficit. In formula form,

Fiscal deficit = total expenditure-total revenue

The total revenue and foreign grants is subtracted from total expenditure of government and the gap between is known as budget deficit. Budget deficit is financed through the mechanism of internal and external borrowing, which is called deficit financing. In formula form,

Budgetary Deficit=Total Expenditure-Total Receipts (Total revenue + grants)

So, the fiscal deficit is greater than budget deficit. Fiscal deficit is covered by grant portion to some extent.

In table 5.5 the absolute amount of fiscal deficit and budget deficit are both increasing from initial to the final year of the study period. But the implement is in fluctuating nature. The absolute amount of fiscal deficit reached to Rs. 95544.4 million in 2010/011 from Rs. 30941.5 million in 2000/01. Similarly budget deficit reached to Rs. 49622.2 million in 2010/011 from Rs. 24188.1 million in FY 2000/01. The controlled increase in government expenditure accompanied by constantly low level of revenue realization has been mainly responsible for acceleration in government fiscal and budgetary deficit.

Grants received by the government from friendly countries, in absolute term have increased from Rs.6753.4 million in 2000/01to Rs.45922.2 million in 2010/011. Foreign grants have been increasing continuously but it does not have steady growth rate. The government receipt is not increasing in proportion to the increase in public expenditure, although, both government expenditure and receipt are increasing continuously. So we always get an existing gap between the receipt and expenditure.

The table 5.5 In government budgetary operation demonstrates that the fiscal and budget deficit have been widening almost every year during the review period. Causes of deficit are quite clear from the above trend analysis of government revenue and expenditure. The trend shows that the level of government expenditure has been higher than the level of revenue including foreign grants. The gap between revenue sources and total expenditure was widened significantly during the review period. It amply demonstrates the fact that the government has not been able to raise resources to meet the growing expenditure. This means government has been living beyond its means.

Table 5.5

Fiscal Deficit and Budget Deficit (Rs. in Million)

Fiscal Year	Total Expenditure	Total Revenue	Fiscal Deficit	Foreign Grants	Budget Deficit
2000/01	79835.1	48893.6	30941.50	6753.4	24188.1
2001/02	80072.2	50445.5	29626.70	6686.1	22940.6
2002/03	84006.1	56229.8	27776.30	11339.1	16437.1
2003/04	89442.6	62331.0	27111.60	11283.4	15828.2
2004/05	102560.5	70191.0	32437.70	14391.2	18046.5

2005/06	110889.2	72282.1	39861.10	13827.5	24779.6
2006/07	131851.0	86135.5	45037.7	15946.0	30091.7
2007/08	168995.6	103667.3	60875.8	27469.1	33031.2
2008/09	219662	143474.5	76187.5	26382.8	49804.7
2009/10	259689.1	179945.8	79743.3	38545.9	41197.4
2010/11	295363.4	199819	95544.4	45922.2	49622.2

Source: Economic Survey, FY 2011/2012 MOF N/G

5.3.2 Sources of Budget Deficit

Most of the countries in the world practice the budget deficit. Theoretically the volumes of expenditure surpass the revenue in such situation. As such gap between the expenditure and revenue need to be managed with various instruments. In other words, the budgetary deficit ought to be financed. In the Nepalese context, as elsewhere, budgetary and fiscal deficit is financed with the medium of internal and external sources. External sources include foreign assistance, particularly loans and grants where internal sources includes internal loan along with borrowing and cash surplus. In forgoing analysis revealed that there persists the budgetary deficit in budgetary system of Nepal. The gap between the revenue and expenditure need to adjust in order to balance the financial position. To meet overall deficits, particularly fiscal deficit, an external source sources of financing i.e. loan and grants are found is heavily used. Therefore, it can be noted that external sources of financing have crucial role in the Nepalese economy.

Table 5.6 explains the figure of financing budget deficit where foreign loan and internal borrowing are major sources of it. The major portion of financing deficit seems to be Internal sources. In the fiscal year 2000/01 the external source of financing budget deficit was 49.79 percent of the total budget deficit but the percentage share of external loan in budget is only 24.34 percent in the final year of the study period. The average share of foreign loan in budget deficit is 33.94 percent in the study period.

The table 5.6 further shows that the contribution of internal borrowing plus cash balance was 79.66 percent, highest in the FY 2008/09 of the study period and lowest 48.66 percent of the budget deficit in 2004/05. The average share of internal source of financing in total budgetary deficit is 66.06 percent.

Table 5.6

Budget deficit and source of Financing (Rs. in Million)

Fiscal Year	Total Budget Deficit	External Source (Foreign Loan)		Internal Source (Borrowing + Cash Balance)	
		Amount	% of BD	Amount	%of BD
2000/01	24188.1	12044.0	49.79	12144.10	50.21
2001/02	22940.6	7698.7	33.56	15241.90	66.44
2002/03	16437.1	4546.4	27.66	11890.76	72.34
2003/04	15828.2	7629.0	48.00	8199.20	52.00
2004/05	18046.5	9266.1	51.34	8780.40	48.66
2005/06	24779.6	8214.3	31.15	16565.30	68.85
2006/07	30091.7	10331.0	33.40	19438.53	66.60
2007/08	33406.7	17367.4	26.9	24430.40	73.10
2008/09	49804.7	9968.9	20.01	39835.8	79.98
2009/10	41197.4	11223.4	27.24	29974	72.76
2010/11	49622.2	12075.6	24.34	37546.7	75.66

Note: BD= Budget Deficit.

Source: Economic Survey, FY 2011/2012, MOF N/G

Figure 5.3

Budget deficit and source of Financing

Source: Economic Survey, FY 2011/012, MOF N/G

It is indeed the economy of Nepal is depending upon the foreign assistance, particularly with loan and grants. Therefore, we can conclude that the foreign assistance plays a significant role in Nepalese economy.

CHAPTER-SIX

IMPACT OF BUDGET DEFICIT IN GDP GROWTH RATE

6.1: Introduction

In the developing countries, like Nepal private sector is not well developed. So the public expenditure increases with its government increasing activities. When market works perfectly, price mechanism will solve the basic economic problem of what, how and to whom to produce. Government intervention however does not necessarily provide a guarantee that society will benefit from such action. Government total expenditure is increasing every year and total revenue also increases, but increasing rate of total expenditure is greater than increasing in total revenue. This increases the gap between total expenditure and total revenue. To fulfill the gap between total expenditure and total revenue, budget deficit also increases.

The impact of budget deficit on GDP can be analyzed by establishing some models (linear-model, log linear model, lag model). Though each model carries its own merits and demerits, emphasis is given to the simple linear regression model. To do so the regression is carried out with 11 years of data from 2000/01 to 2010/11. The fitted equation of the regression model is as following that the estimates are based on constant data series of the variables. However, no attempt has been made to correct the problem of series correlation. In all statistical analysis, figures in parentheses below the coefficients for independent from computer via SPSS programmers. All of variable name, label and formation of regression can be seen by appendixes. The regression equation is given on each heading.

6.2 Regression Analysis

1. Contribution of Budget Deficit on GDP

The ordinary least square (OLS) estimation of the relevant equation given the following result:

$$GDP = 360472.6 + 4.280\ BD$$
$$(24619.744) \qquad (0.771)$$

$R^2 = 0.774$, Adj $R^2 = 0.749$, $T = 5.551$, $DW = 1.146$

Equation shows that there is positive relationship between GDP and budget deficit. The sign of regression coefficient is greater than unity. It implies that hundred percent increases in budget deficit will increase GDP by 428 percent. The value of R^2 reveals the fact that about 77.4 percent change in GDP is extended by the change in budget deficit, which shows the goodness of fit of the regression line. Here, calculated value of t (5.551) is greater than tabulated value of t (2.262) at 5% level of significance. So, t value is significant, it means there is positive relationship between budget deficit and GDP. The DW value is 1.146 suggests that there is uncertainty of autocorrelation at 5 percent level of significance.

2. Contribution of Total Expenditure on GDP:

The OLS estimation of the relevant equation gives the following results -

$$GDP = 376273.9 + 0.753\ TE$$
$$(11246.378) \qquad (0.068)$$

$R^2 = 0.931$, Adj $R^2 = 0.924$, $T = 11.073$, $DW = 0.373$

Equation shows that there is positive relationship between GDP and total expenditure. The sign of regression coefficient is positive (0.753) telling that one percent change in total expenditure will induce to have 0.753 percent change in GDP. As the values of R^2 and adj R^2 are very high, it represents the high goodness of fit of regression line. That is the value of R^2 is high enough to justify that 93 percent change in GDP is explained by the change in the total expenditure. Here, calculated value of t (11.073) is greater than tabulated value of t (2.262) at 5% level of significance. So, t value is significant, it means there is positive relationship between total expenditure and GDP. The DW-value of 0.373 suggests there is positive auto correlation at 5 percent level of significance.

3. Contribution of Total Revenue on GDP:

An attempt is made to analyze the impact on GDP by total revenue. The OLS estimation of the relevant equation given the following results:

$$GDP = 381090.2 + 1.089\ TR$$
$$(11840.54) \qquad (0.108)$$

$R^2 = 0.919$, Adj $R^2 = 0.910$, T = 10.083, DW = 0.470

Equation shows that there is positive relationship between GDP and total revenue. The sign of regression coefficient is greater than unity. It implies that hundred percent increases in total revenue will increases GDP by 108 percent. As the value of R^2 and adj.R^2 are very high. It represents the overall fitness of the model. That is the value of R^2 high enough to justify that 91 percent change in GDP is explained by the change in total revenue. Here, calculated value of t (10.083) is greater than tabulated value of t (2.262) at 5% level of significance. So, t value is significant, it means there is positive relationship between total revenue and GDP. The DW-value of 0.474 suggests that there is positive auto correlation at 5 percent level of significance.

4. Contribution of Fiscal Deficit on GDP:

The ordinary least square (OLS) estimation of the relevant equation given the following result:

$$GDP = \underset{(12691.315)}{369660.6} + \underset{(0.231)}{2.374}\, FD$$

$R^2 = 0.921$, Adj $R^2 = 0.912$, T = 10.277, DW = 0.584

Equation shows that there is positive relationship between GDP and Fiscal deficit. The sign of regression coefficient is greater than unity. It implies that hundred percent increases in fiscal deficit will increase GDP by 237 percent. The value of R^2 and adjR^2 are very high. It represents the overall fitness of model. That is the value of R^2 is highly enough to justify that 92 percent change in GDP is explained by the change in fiscal Deficits have positive auto correlation at 5 percent levels of significance. Here, calculated value of t (10.277) is greater than tabulated value of t (2.262) at 5% level of significance. So, t value is significant, it means there is positive relationship between fiscal deficit and GDP.

5. Contribution of foreign Grants on GDPs:

The ordinary least square (OLS) estimation of the relevant equation given the following result:

$$GDP = \underset{(9916.125)}{398605.6} + \underset{(0.423)}{4.465}\, FG$$

$R^2 = 0.925$, Adj $R^2 = 0.917$, T = 10.555, DW = 1.089

Equation shows that there is positive relationship between GDP and foreign grants. The sign of regression is greater than unity. It implies that hundred percent in foreign grants will increase GDP by 446 percent. The values of R^2 and AdjR^2 are very high. IT represents the overall fitness of the model. That is the value of R^2 is high enough to justify that 92 percent change in GDP is explained by change in foreign grants. Here, calculated value of t (10.555) is greater than tabulated value of t (2.262) at 5% level of significance. So, t value is significant, it means there is positive relationship between foreign grants and GDP. The DW value is 1.089 suggest that there is uncertainty of autocorrelation at 5 percent level of significance.

From the above analysis it is found that there is positive relationship between the aggregate level of GDP and budget deficit. Among total expenditure, total revenue, fiscal deficit and foreign grants is found to be highly responsiveness to aggregate level of GDP.

CHAPTER-SEVEN

SUMMARY, FINDINGS AND RECOMMENDATIONS

7.1 Summary:

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

After the re-establishing democracy in Nepal in 1990/91, democratic government has attempted to increase the amount of expenditure and revenue, which is clearly seen in its annual budget. This study has tried to show the pattern of government budgetary system or the trend of expenditure, revenue, budget deficit and formulation of budget in Nepal. Following are the major findings of the study. These findings are based on the analysis of budget data for the FY2000/01 to 2010/11. The budgetary policy measures taken by the coalition government during the period of transition adopts the policy towards liberalization along with providing peace and security to the people of the nation. But these policies are quite inadequate in terms of desired results due to instability caused by Maoists insurgency.

The each and every government in this decade try to establish long term sustainable peace, harmony ,investment friendly environment along with prosperous Nepal. But these objectives of the government could not achieve due to frequent change in government and lack of common minimum agenda in politics (Specially in the field of economic policies focused on budgetary policy).

Looking at the expenditure trend of this decade, the share of recurrent expenditure in total expenditure remained close to 60 to 62 percent between fiscal year 2002/03 and 2005/06 while such ratio has declined in subsequent years, which is considered as positive from public financial management perspective.

The share of capital expenditure in total expenditure was about 26 percent between fiscal year 2000/01 to 2005/06 while it shows gradual improvements in the subsequent years reaching 36.5 percent in the fiscal year 2010/011. Similarly, revenue mobilization covered about 63 to 70 percent of the total expenditure up to the fiscal year 2009/010.During this period average gross revenue grew by 17.5 percent, while average growth rate of gross expenditure stood at 17.3 percent. The average fiscal deficit increased by 16.5 percent from fiscal year 2000/01 to 2009/010. During the same period, the share of fiscal deficit in the total expenditure continued to decline from 19.6 percent in the fiscal year 2002/03 to17.6 percent in 2004/05, which has further declined to 16.8 in the fiscal year 2010/011. Of the resources of financing of fiscal deficit in the fiscal year 2002/2003, the share of domestic borrowings was 54 percent. The share of domestic borrowing reached 85.7 percent during the fiscal year 2010/2011.

During the past decade at the coalition government also seems unable introduce new, bold and brilliant measures to mobilize domestic resources. Recently a major feature of budgetary development has been growing dependence on foreign loans for the deficit financing from fiscal year 2004/05 up to 2006/07. In the fiscal year 2010/011, of the sources of finance capital and principal repayments, the share of revenue surplus stood at 23.6 percent, the share of foreign grants 36.1 percent and the share of deficit financing remained at 39.7 percent.

The share of revenue surplus in the fiscal year 2010/011 is less by 3.0 percentage points than that of FY 2009/010 while share of foreign grants is more by 1.2 percentage points. This is not the happy situation for the country like ours which has already borne the foreign debt as 19 percent of total GDP of the country. The past tradition of banking its development expenditure up on foreign assistance could not be broken even democratic as well as coalition government. So much remains to be done in the area of budgetary policy if it has to be made consistent with the overall macro-economic policy.

As per preliminary data, GDP in fiscal year 2011/12 is estimated at growth to grow at 4.5 percent at the base price and 4.63 at producer's price against the target of 5.0 percent set for the year. In the previous fiscal year, GDP growth rate stood at 3.81 percent and 4.26 percent at the base price in fiscal 2010/11 and 2009/10 respectively. Non agriculture GDP could grow only by4.27percent due to ever extending political transition, problems in industrial environment, lack of private investment, and energy crisis. From GDP growth perspective, the past decade was not encouraging for Nepal. GDP growth rate that had recorded 5.8 percent in fiscal year 2007/08, hovered around 4.0 percent in other year. For instant, GDP rate in the fiscal year 2006/07 grew at merely 2.8 percent. The GDP growth rate in the past decade 3.51 percent on an average, while sector-wide growth also was not encouraging with 3.18 percent, 2.14 percent, and 4.52 percent growth rates in agriculture, industry, and services sectors respectively. In the preceding years, growth rate of the industry sector has been decreasing while that of the services sector has been increasing.

This study presents that there is positive relationship of budget deficit on GDP growth. The regression analysis shows that there is positive impact of budget deficit, total expenditure, total revenue, fiscal deficit and foreign grants on GDP growth. It means the increase in budget deficit increases the GDP growth rate remarkably due to high value of R^2 as well as adj.R^2.Similarly total expenditure made by the government through budget deficit is fruitful to increase GDP growth in Nepal.

7.2 Findings

1. Unrealistic Budgeting process

Nepal's budgeting process has been highly unrealistic in recent years. In almost all the years in the review period, the budget targets have been set at unduly high levels, particularly for development revenue and foreign aid. This cover estimation of resources in turn has led the government to set similar unrealistic targets for the development budget and to accommodate too many new projects. However, the actual budget outcome had fallen significantly short of these optimistic expectations every year. And, since there is little scope for cutting back regular expenditures, the burnt of fiscal adjustment has been made through cutbacks in development spending.

2. Development budget is heavily over-programmed

The budget, particularly its development component is heavily over-programmed. Because of political pressures to accommodate new projects, there are unmanageable projects for development budget. There is a concrete lack of cost-benefit analysis and prioritization of development projects.

3. Declining but still high deficit

Despite a series of fiscal reform, both in revenue and expenditure fronts, the budget deficits still remained above the six percent of GDP. This may be partly due to ascendant impact of development expenditure which was dominated by a few but popular and even costly entitlements like social services, rural infrastructure, and power generation, generally tied with demographic and economic factors. In order to finance these entitlements revenue policy has been skewed, making it more difficult to meet resource gap through increased taxes.

4. Increasing burden of debt servicing charges

There has been a increasing trend towards loans rather than grants in the composition of the foreign aid in Nepal. This has imposed the growing burden of debt servicing charges and interest payment. Debt servicing burden in Nepal, though not acute and alarming as yet is increasing fast. Unless the government takes certain measures to alleviate the situation, it will not only bring instability in the economy but will also slow down the pace of development and will thus produce consequences economically.

5. Lack of co-ordination between Regular and Development budget formulation

The budget document presented to the parliament appears to be a unified one. But in reality the regular budget and the development budget are normally prepared different procedures. The MOF prepares regular budget on the basis of past experience and historical accounting whereas NPC prepares the development budget targeting to fulfill the development need of the nation. In such cases, difficulties are frequently encountered in meeting macro objectives where the two budgets are prepared without full co-ordination, or on different economic assumptions.

6. Over reliance on foreign aid and lack of proper foreign aid policy

There is no concrete foreign aid policy. However, the government has made draft for this in 2002.Lack of proper foreign aid policy has resulted in haphazard flow and uses of foreign aid. Such a situation has been creating aid dependency syndromes in the Nepalese economy. Over reliance on foreign aid has been creating the situation of lose in self-dignity.

7. Lack of monitoring mechanism

There is a lack of monitoring mechanism during the budget execution. That's why there is a widespread leakage of resources and tardy pace of project implementation. There is also lack of co-ordination between government organizations.

8. Lack of Multi Year planning

There is severe lack of multiyear planning in Nepal. As such, there is a lack of coordination between necessary budget required and budget allocation for the many development projects. Because of lacking such a planning, many development programs are in under-finished conditions and their implementation condition is gloomy.

9. Lack of Commitment

There is also a lack of commitment from the government as well as civil staff. There is no any effective reward and punishment System. Therefore, there is an excessive leakage of the government resources and weak performance. No one takes the responsibility of the project failure. In this way, there is lack of public responsibility and accountability. In other words, there is an absence of good governance that is resulting in the weak fiscal management of the government.

7.3 Recommendations:

Nepal is an underdeveloped country and its economic situation is not improving in satisfactory manner. It is facing economic as well as social problem for its development. The huge investment from government side to increase GDP has failed to achieve the target. Development efforts through various fiscal measures have been unsuccessful and increasing government outlays could not increase productivity. Actually the external capital inflow has not strengthened the national economy. The resources gap is generally widening due to limited internal resources mobilization and their potentiality. On the other hand, the government needs to bear the responsibility of creating employment opportunities, need to support the people living below the absolute poverty line and other social obligation along with development responsibilities. In Nepal, government has still a greater role to play in development activities even after the adoption of liberalized economic policy especially with respect to development infrastructure conducive to development and providing facilities to the people under social safety net. With this background, some general recommendation can be outlined as follows:

1. Budget deficit should be taken as an important form of resources mobilization in Nepal.
2. The main reason for increasing of budget deficit is caused by the growth rate of public expenditure is greater than the revenue growth rate. Therefore, government should formulate the long term tax policy so that assurance can be given to the investor in the economy by national entrepreneurs and foreign direct investors.
3. The use of customs duties highlight their historical importance which may be decline along with the recent development in regional and international trade organizations like SAPTA,WTO and trade liberalization. Thus, there is an urgent need to reform domestic taxes.
4. Expenditure on recurrent activities is increasing at the faster rate than revenue and capital expenditure. As this does not add any productivity in the economy, unnecessary recurrent expenditure should be discouraged.
5. Bringing peace in the economy could save expenditure on defense. Resources can be diverted to more economical and productive infrastructure development. There must be cut in defense expenditure.
6. 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 corruption.
7. Debt servicing is increasing every subsequent year. Debt raised for incurring recurrent expenditure may create burden in the economy and for future generation. Therefore, loan from external sources should be received only when needed. Foreign aid must be utilized in more productive sector and infrastructural development.
8. Proper co-ordination between National Planning Commission and Ministry of Finance should be maintained budget should be prepared depending upon economic prosperity. Expenditure on unproductive sector should be reduced and transparency in earning and

spending should be enhanced. In order to discourage corruption and irregularities, property earned through unfair means should be nationalized.

9. The budgetary decision should be carried out with social and economic objectives in view rather than to fulfill political objectives.
10. Information of budget deficit should be published regularly through journals, magazines, newspaper, radios, televisions etc. Interviews programs with professors researchers, budget deficit experts and economists should be conducted and published through medias.

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Appendix A

(Rs. In Millions)

Fiscal Year	**GDP**	**Total Expenditure**	**Total Revenue**	**Fiscal Deficit**	**Foreign Grants**	**Budget Deficit**
2000/01	413429	79835.1	48893.6	30941.5	6753.4	24188.1
2001/02	414092	80072.2	50445.5	29626.7	6686.1	22940.6
2002/03	429699	84006.1	56229.8	27776.3	11339.1	16437.1
2003/04	448654	89442.6	62331	27111.6	11283.4	15828.2
2004/05	463165	102561	70191	32437.7	14391.2	18046.5
2005/06	480435	110889	72282.1	39861.1	13827.5	24779.6
2006/07	493651	131851	86135.5	45037.7	15946	30091.7
2007/08	522260	168996	103667	60875.8	27469.1	33031.2
2008/09	541964	219662	143475	76187.5	26382.8	49804.7
2009/10	565800	259689	179946	79743.3	38545.9	41197.4
2010/11	587300	295363	199819	95544.4	45922.2	49622.2

Appendix B

Equation	**1**	**2**	**3**	**4**	**5**
Dependent Variable	GDP	GDP	GDP	GDP	GDP
Independent Variable	BD	TE	TR	FD	FG
Constant	360472.6 (24619.744)	376273.9 (11246.378)	381090.2 (11840.54)	369660.6 (12691.315)	398605.6 (9916.125)
Coefficient	4.280 (0.771)	0.753 (0.068)	1.089 (0.108)	2.374 (0.231)	4.465 (0.423)
R^2	0.774	0.931	0.919	0.921	0.925

Adj. R^2	0.749	0.924	0.910	0.912	0.917
T-Value	5.551	11.073	10.083	10.277	10.555
D-W	1.146	0.373	0.470	0.584	1.089

Note: BD= Budget Deficit, TE= Total Expenditure, TR= Total Revenue, FD= Fiscal Deficit, and FG= Foreign Grants.