CHAPTER 1

INTRODUCTION

1.1 Background of the Study

The budget is an instrument through which the government controls the entire economy where as budgeting is the budget a process of preparing, negotiating and agreeing a quantifier and specific plan for an organization, normally for a year. The budget has been defined by different writers in various ways. Some of writers are in the view that budget is a statement forecasting revenue and expenditure during a certain period of time. The word 'budget' is derived from French word "Baguette" which means small leather bag of pouch. It was used first in England to describe the white leather bag, which held the seal of medieval Court of Exchequer. Later known 'Budget' contained proposals of financial plan of government expenditure. But word budget has now been used in all countries and in many languages. The term budget is now commonly understood as a government document. In pact it is a proposal of proposed means of financing them for the approval of legislature (Bhandari, 2014).

Budget is also a financial resource that plays a pivotal role in the functioning of the state. Whether a budget is balanced, in surplus or in deficient, directly influences the state's operation. A budget dose not only establishes a linkage with the existing policies but also addresses the demands of citizens. The local level organization, local representatives and parliamentarians have a vital role in advocating for certain programs or projects that meet the needs of their constituencies. Therefore, a budget represents an allocation of resources based on the demands and needs of the citizens (Sigdel, 2014).

In todays' world, the budget in known as the device for influencing the allocation of resources throughout the economy directly through expenditure decisions and indirectly through policy decisions built into the budget. Though it is a difficult task to define a vague subject as budget, a budget is an estimate to purposed expenditure for a given period and the purposed means of financing them. From the layman's point of view, a budget is the policy of the government to be followed in collecting the fund and utilize it on governmental activities. In this manner the budget is a collection of documents that shows the financial activities of the government with respect to revenues, expenditure and debt (Sharma,1988)

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Nepal is not new to the concept of budgeting with detailed guidelines, policies and law as in place. Nepal, government plays an important role for the socio-economic Development of the country. The issue of significant proportion of the capital expenditure being unspent is indicative of the underutilization of the resources in the country. Budget expenditure has always been a problem with majority of the spending taking place towards the end of the fiscal year in the developing country like ours private sectors in weak to participate in the economic development. Due to lack of capital and private sectors is not encouraging. By budgetary policy with the means of tax, exercise, customs etc. government can motivate private sector to cope (manage successful) with development activities in developing countries due to very immature stage of private sectors, government has to motivate and give suitable infrastructure for making private sectors active. Then only control and direction becomes the secondary phase of the government to deal with private sector. The budgeting plays a vital role in the mode of economic development of a country. As the world environmental is becoming more and more complex, budgeting has becomes very important and technical as well. (Dahal, 2008).

Before the Keynesianism, in the period of classical economists and their followers, the budget had the passive role in the economists 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 economy of the 1930s reveals the fact that to correct the disorder situation of the capitalist economy the government intervention has become a principal instrument which has been emerged from the work of Keynes. Today, the budget has been the key instrument of government involvement in the economic development. Any country follow whatever the policy, i.e. either monetary policy or fiscal policy for their economic stability and economic development the budget has been a key medium factor for successful implementation of their respective policies.

No government can afford to take taxation, borrowing, expenditure and other fiscal decisions at random. On account of their inter-connection, all decision and policies must form part of its overall set of objectives. The whole approach has to quite systematic if chaos and wastage are to be avoided. In general, a budget show financial accounts of the previous year, the budget and revised estimates of the current year and the budget estimates for the forth coming year. In addition, the estimates for forth coming years are split up into two parts those based upon the proposed changes therein. A budget in this sense becomes both a description of the fiscal policies of the government and the financial plans corresponding to them. (Bhatia, 2006).

To facilitate annual decision making on expenditures government have developed budget systems, which provide for systematic presentation of recommendations for expenditures by the executive to the legislative branch. The budget system through appropriations legislation and control of expenditures, also provide a basis for ensuring that actual expenditures conform to law. A budget may therefore be defined as a financial plan that served as the basis for expenditure decision making and subsequent control of expenditures. (Due and Fried lander,1997)

A good budget is one which is able to satisfy certain conditions and is formulated according to certain well drawn princip0als. One such principal that the budget should be accompanied by an account of the performance of the fiscal policies and programs of the government during the previous year. This provide a necessary basis for deciding as to what was to be done, what has been accomplished and what more should be aimed at and in what decisions. (Bhatia,2006)

Thus budgeting is an important tool in learning the relationship of government programmes to economic and financial conditions and trends in fashioning suitable economic and financial policies and measures since the budget embodies a national annual plan for taxing, borrowing and spending significant segment of the national income, it has a substantial impact on the country's fiscal soundness and national economy.

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

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

i. Government Expenditure
ii. Government Revenue
iii. Foreign Grant
iv. Loans (Internal and External)

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

1.2 Statement of the Problem

The history of public budgeting in Nepal is not very old. It is just dates back to a period of less than seven decades. Prior to 1951, the country was ruled by Rana oligarchy who were only interested in the collection of revenue and maintains of law and order. They did not give any attention to the national development. The Rana Regime was over thrown in 1951 and subsequently in 1951/52 the first budget prepared. Before 1951 there were some rules and regulations that were adopted fo9r revenues and expresses. The initial budgets had problems in meeting the regular governmental expenditure mainly because of tremendous pressure from the people for multi sector development of the nation. But because of the lack of national resources the budgets were just and account of estimated expenditure and expected revenue.

Therefore, this present study aims to find the answer of:

1. What are the overall trend, pattern and structure of Nepalese budget?
2. What are the factors or determinants of budget in Nepal?

1.3 Objectives of the Study

The aim of this study is to examine the trend, structure and determinants of budgeting in Nepal after restoration of democracy in 1990. This research has attempts to provide framework for the budget planters and decision makers in allocating resources. Its specific objectives of the study are;

i. To study overall trend, pattern and structures of Nepalese budget.

ii. To explore the factors affecting budget.

1.4 Hypothesis of the Study

The hypothesis of the study is as below:

Null Hypothesis (H_0): There is no positive and significant role of the government revenue, foreign grants and national debt on budget.

Alternative Hypothesis (H_1): There is positive and significant role of the government revenue, foreign grants and national debt on budget.

1.5 Significance of the Study

Developing countries like Nepal where most of the available investment comes from the government sources state led growth strategy through government budgeting has great significance. It has number 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 is the stability in the economy. And this study helps to find out the how the budget being influenced by the various factors in order to implement policies and programs set by the budget.

To search the effectiveness and sound budgetary system, research and study in this field with be relevant. Further where the literature regarding the Nepalese budget is scanty, the work in this subject will be of great importance. Therefore this study on budgetary structure will make additional contribution to some extent for pointing out some important information regarding the policy instrument along with the assessment of revenue and expenditure pattern and the major influencing factors of government budget.

1.6 Limitations of the study

The study has flowing limitations.

1. This study is based on the published secondary data and desk research. No attempts are made to examine the reliability of the available secondary data since the related authorities officially release them.

2. This study takes into account the facts and figures of the 28 years (1990/91-2016/17).

1.7 Organization of the Study

The study is divided into five chapters. The first chapter of the study is introduction which includes background of the study, statement of the problem, objectives of the study, hypothesis of the study, significance of the study, limitations of the of the study and organization of the study. The second chapter of the study is review of the literature that deals with international context, national context and research gap. Third chapter is the research methodology. It includes the conceptual framework, research design, source of data, study period covered, tools of the study, specification of model, explanation of variables, hypothesis testing, statistical test of significance.

Fourth chapter is the presentation and analysis of data that carry out history of budget, Components of the Nepalese Budget, Trends of Government Expenditure, Government Revenue, Fiscal Deficit and Budget deficit and empirical analysis of budget determinates. Finally, the fifth chapter is the major findings, conclusion and recommendations.

CHAPTER II

REVIEW OF LITERATURE

Review of literature means to review the past research or studies or other relevant propositions in the related area of the study. So, all the past studies, their conclusions and deficiencies may be known and further research can be concluded. It is an integral and mandatory process in research works. The main reason for a full review of research in the past is to know the outcomes of those investigations in areas where similar concepts and methodologies had been used successfully. Further, an extensive or even exhaustive process of such review may offer vital links with the various trends and phases in the researches in one's area of specification, familiarizing with the characteristic percepts, concept and interpretation, with the special terminology, with the rationale for understanding one's proposed investigation.

The concept of budget is normally associated with national government 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 .A long with the proposed revenues and expenditure relating to these activities, a budget present the financial accounts of the previous year, the budget and resaved estimates of the current year and the budget estimates of the coming financial year. In the context of budget, several publications are published in the form of booklet, book, journal, article etc. Likewise there are several books, booklets, journals and articles written by Nepalese budget. Similarly, studies have been made to allocate the resources for different activities. The reviewed relevant past works are present below:

2.1 International Context

Desmond and et.al (2012) have analyzed effects of the public expenditure on the economic growth of Nigeria. The objectives of the research are to carry out the relationship of the public expenditure and economic growth in Nigeria and to find out the causal relationship between them. The research has applied OLS multiple regression models specified on Perceived causal relationship between government expenditure and economic growth. It used time series data included in the model were those on gross domestic product (GDP), and various components of government expenditure. Results of the analysis showed that capital and recurrent expenditure on Economic services had insignificant negative effect on economic growth during the study Period. Also, capital expenditure on transfers had insignificant positive effect on growth. But, Capital and recurrent expenditures on social and community services and recurrent expenditure on transfers had significant positive effect on economic growth.

Kweka and Morrissey (2000) have studied the relationship between the government spending and economic growth in Tanzania. The objective of this paper is to investigate the impact of public expenditure on economic growth of Tanzania. The research has used the time series data set in between 1965-1996. It formulated the model by disaggregating the government expenditure on physical investment, consumption expenditure and human capital investment. Results of the research showed that the negative relationship between the physical investment and growth accounting in Tanzania. On the other hand, consumption expenditure has positive effect on the growth and the expenditure on the human capital is not insignificant in the study.

Oni and Ozemhoka (2014) have studied the relationship between public expenditure and economic growth in Nigeria. The objectives of the research are to examine the impact of public expenditure on economic growth in Nigeria and to ascertain whether there is a relationship between gross domestic product (GDP) and government expenditure in Nigeria. It used the data over the period of 1981- 2011 and the ordinary least square (OLS) method of the econometric technique was used after checking the stationary of the data by using ADF test. The major findings are there is a positive relationship between the economic growth and public expenditure.

Tylor (1961) has published a book. It has explained the relevance of the public expenditure on the economic growth. The public expenditure stressed the expansion of government had often been characterized a movement in the direction of socialism that government obviously trended to socialize through public expenditure. It helped to correct the disorder that had created by cyclical fluctuation which mostly appeared during the depression. “public works projects and landing functions during the depression were in situated to cushion the effects of the worst features of capitalism – its recurrent tendency to break down.” “Pump-Priming” the injections of the public expenditures to fill a void left by deficient private expenditure in recession has as its goal the prevention of serious break down.

Kapunda and Topera (2013) have examined the relationship between the government expenditure and economic growth in Tanzania. The main objectives of the research are to find the trend and pattern of government expenditure composition and how it influences economic growth in Tanzania. It has used the data set between the period of 1965-2010. It has used the simple OLS technique and the t-test as a methodological tool after checking wheather the data sets are stationary or not. The study showed that factors which contribute positively and significantly to economic growth are capital expenditure and terms of trade. Other variables which influence growth positively, but not significantly, are expenditure on health, agriculture, public services, defense and infrastructure. Others are real exchange rate, real foreign interest rate and private policy measured by a dummy. Recurrent expenditure and few other factors have negative impact on growth.

Devarajan, Swaroop and zou (1996) have examined the relationship between public expenditure and growth noting that the literature has focused on the link between the level of public expenditure and growth, we derive conditions under which a change in the composition of expenditure leads to a higher steady-state growth rate of the economy. The conditions depend not just on the physical productivity of the different components of public expenditure but also on the initial shares. Using data from 43 developing countries over 20 years we show that an increase in the share of current expenditure has positive and statistically significant growth effects. By contrast, the relationship between the capital component of public expenditure and per-capita growth is negative. Thus, seemingly productive expenditures, when used in excess, could become unproductive. These results imply that developing-country governments have been misallocating public expenditures in favor of capital expenditures at the expense of current expenditures.

Nurudeen and Usman (2010) has examined the relationship between government expenditure and economic growth. The paper observes that rising government expenditure has not translated to meaningful development as Nigeria still ranks among world's poorest countries. In an attempt to investigate the effect of government expenditure on economic growth, they employed a disaggregated analysis. The results reveal that government total capital expenditure (TCAP), total recurrent expenditures (TREC), and government expenditure on education (EDU) have negative effect on economic growth. On the contrary, rising government expenditure on transport and communication (TRACO), and health (HEA) results to an increase in economic growth. The authors' recommendations include among others the following. Government should increase both capital expenditure and recurrent expenditure, including expenditures on education, as well as ensuring that funds meant for the development of these sectors are properly managed. Secondly, government should increase its investment in the development of transport and communication, in order to create an enabling environment for business to strive. Thirdly, government should raise its expenditure in the development of the health sector since it would enhance labour productivity and economic growth. Lastly, government should encourage and increase the funding of anti-corruption agencies in order to tackle the high level of corruption found in public office.

Mitchell (2005), has examined the impact of Government Spending on Economic Growth of America. According to him, the growing government is contrary to America's economic interest because the various methods of financing government taxes, borrowing and printing money have harmful effects. This is also true because government spending by its very nature is often economically destructive, regardless of how it is financed. The many reasons for the negative relationship between the size of government and economic growth include the extraction cost, the displacement cost, the negative multiplier cost, behavioral subsidy, behavioral penalty cost, market distortion cost, ineffective cost and stagnation cost.

Felipe and Klaus (1991) conducted in Zimbabwe, during the study period of 1980/81 to 1988/89, found that the public sector deficit has grown from less than 10 present of GDPin initial period of study (1980/81), but it is raised up to 14 percent of GDP over 6 year span. From which nominal interests on domestic debt and foreign debt output ratios were continually rising. But due to the starting of fiscal adjustment program in 1987/88 and it was continuously decreasing. The study shows that among macroeconomic variables, real import and real exchange deviation had a negative impact on public sector deficit. On the country, increase in the domestic real interest rate, domestic inflation and foreign nominal interest rate tends to boost the deficit in decreasing rate. The impact analysis shows that if real GDP has to be increased by one percentage that translates the fiscal deficit should be increased by 16 percentages. For this, the foreign real debt increased by 3 percentage and domestic by 5 percentage where the domestic inflation increased by 31 percentage. This whole finding shows that fiscal deficits have to be reduced for attaining the goals of sustainable development of the economy.

Huynh (2007)conducted his study while collection data from the developing Asian countries for the period of 1990 to 2006. 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 conclude the crowding-out effect surfaces as the budget deficit burden increase. 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 periods 1971to 1984 on the United States of America (Cebula, 1988).

Olabisi and Funlayo (2012) showed that the relationship between the composition of public expenditure and economic growth in Nigeria. Government expenditure is expenditure is expected to be means of reducing the negative impact 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 model (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 contribution to growth while future studies is necessary to identify empirically why public expenditure on water and education are negatively related with growth.

Rahaman (2012) discussed that on the relationship between budget deficit and economic growth. While Keynesian economies claimed that these two series are positively related. The neo classical economic claimed the opposite Meanwhile, the Ricardian equivalence hypothesis argue that there is neutral relationship between budget deficit and economic growth. The objectives of this paper are to investigate the relationship between budget deficit and economic growth from Malaysia's perspective. Four variables were used namely real GDP, governmen's debt, productive expenditure, and non-productive expenditure. ARDL approach is used to analyze the long run relationship between all series it can cater for small size. By using quarterly data from FY 2005 to 2015, it was found that there is no long run relationship between budget deficit and economic growth of Malaysia, constant 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 variable that can help to coverage the economy to its equilibrium is the change in GDP and productive expenditure. For future recommendation, it is suggested that other researcher will enhance this research by including other developing countries as the sample analyses.

Government expenditure and inflation are positively related. It is generally believes that higher government spending leads to higher inflation as the government seeks additional sources of revenue. In this reference, Vegh had performed a comparative study of relationship between government spending and inflationary finance in a public finance context in 1996. In this theoretical study, Carlos found the following effects of government expenditure.

1. The higher level of government expenditure, the larger the increase in nominal interest rate that results from a given increase in government spending.
2. The more inefficient the tax collection system is, the higher is the optional nominal interest rate for a given level of government spending. And
3. The share of revenues of the inflation tax is a decreasing function of government spending

From the policy perspective this theory is more useful "especially in developing countries, a reduction in government spending should lead to reduction in an inflation tax. Because the ultimate reason for the existence of a high inflation- tax lies in the fact that the government need for revenue co-exists with increasing marginal costs of collection alternatives taxes."

2.2 National Context

Sing (1977) stressed on the availability of expect resources as a reason for the unsuccessfully implementation of programs and projects and even for the uncertainly of whole Nepalese budget. As he points uncertainly of whole Nepalese budget. As he points out that it is often the case that the level of resources that are expected to be raised in the budget often finds itself way out of actual level of resources, whereas programme analysis and inclusion of the programs in the budget are often done with an optimism way and some of them have to be left out because of the shortage of the budget.

Malla (1996) has attempted to examine allocation of development expenditure on various sectors according to the order of priority. This is known as expenditure pattern. It is effort is concentrated to measure the contribution of revenue surplus and foreign as well as domestic borrowing in the development outlay. He has shown the increasing trend of development expenditure.

Sharma (1988) had attempted to point out some features, prevailing practices and problem of Nepalese budgetary structure inherent in the Panchayat system. He had used the secondary data which are mostly published by the ministry of finance and analyzed them by using some statistical tools. He had concluded that the Nepalese budget had been working in a continuous financial crisis resulting in excess dependency on external assistance. At the same time Nepal had been experiencing the problem of inefficient and underutilization of available funds. Actually the external capital inflow could not have strengthened the national economy and Nepal had been restoring to the subsistence economy. He further concluded that the basis at which Nepal government had been building its budgetary evolution was very weak and could not have shouldered these evolutions in the budgetary system of Nepal.

Chaudhary (2001) states that the inconsistent public policy and insecure bureaucracy has discouraged private investors from taking loan term investment decisions. Due to rising terrorism donors as well as international investors have shied away from venturing into new initiates. There can be no investment in absence of social stability. People's hopes and expectations had peaked after the restoration of democracy. Today, the dreams lie shattered and hopes broken into pieces. Disappointment and anger has taken their place instead. Efficiency of the bureaucracy has hit bottom. From trained manpower to untrained labor, every section of the population aspires today to opt out by migrating aboard. This is not merely a cause of worry, but an indirection of great crisis facing the country. A national agenda shall establish realistic goals, estimate constraints and chart out the ways of overcoming them and translate inherent strengths into opportunities, Nepalese in every walk of life are yearning for such a consensus, such an agenda and plan of action that Nepal can usher into a better future.

Khanal (2005) has focused on the structure and pattern of budget in Nepal. She has used secondary data published by GON and has analyzed in them meaningful manner using common statistical tools she found that the developed Budget assessment model was working correctly. It can be used while preparing the budget to assess the desired budget component. She also found that government expenditure, government revenue and their components can be well described by linear function for the considered fiscal years.

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

The study conducted by Poudel has suggested some recommendations to improve budgeting system in Nepal. Some of them are as a proper coordination between National Planning Commissions of finance should be maintained (b) budget should be prepare depending upon economic prosperity (c) expenditure an unproductive sector should be reduced and (d) transparency in earning and spending should be enhanced.

Acharya (2008) has tried to study the trend of government expenditure, revenue, foreign aid and pattern of government expenditure shows a significance difference between receipts (revenue and grants) and expenditure. In the study period, major portion of gap between government expenditure and revenue was met by foreign loan. The amount of budgetary deficit has been continuously increasing over the period of study. There are mainly three sources of financing the budgetary deficit, which include external loan, internal loan and cash balance. In the Nepalese context, foreign assistance, particularly foreign loan has been an important source to meet the budgetary deficit. During the study period, the average annual growth rate of internal loan has been 6.5 percent which is 3.2 percent to GDP. Whereas growth rate of integral loan has been 9.73 percent with 1.48 percent to GDP. The highest percentage of regular expenditure is allocated for debt servicing about 29.4 percent of total regular expenditure. Lack of transparency underutilization of foreign aid in an contrast to commitment are the inherent causes to utilize the foreign aid I nan efficient an optimum way. This study hence concluded that the share of foreign loan though essential for financing development expenditure should be reduced to lower the burden of external debt.

Beyer(1973) has stated the budget should have relationship with plan otherwise budget will not be able to achieve the planned objectives. This problem can be solved to some extent through the application of performance evaluation. Budgeting is the measuring red for evaluating government activities. In this context Beyer says; "The measurement of a government's performance through the annual budget is a fundamental component of any budgeting system.

But the method of performance evaluation is also not satisfactory in Nepal Mr. Beyear further stages: "…in Nepal the measurement of performance was made almost solely in financial terms and in the basis of a department's ability to meet accounting and auditing rudiments. A second well of performance measurement is in physical terms, or work units (example given: Kilometers of road contracted, experiments conducted, and so on.) in Nepal this type is done only occasionally.

NRB, Macroeconomic Indicators of Nepal (2012) had reviewed about key macroeconomic indicator4s of Nepal in 2012. In the preliminary estimates government expenditure was 11.9 percent in FY 2011/12 which was 13.7 percent in previous FY 2010/11. Similarly, the government revenue in FY 2011/12 was 22.2% which was 11.0% in pervious FY Likewise; the government tax revenue was 20.2 percent in FY 2011/12 and 10.5 percent in FY 2010/11. The Nominal GDP at producer's price in FY 2011/12 was 13.8 percent and Real GDP at procures's price in FY 2011/12 was 13.8 percent and Real GDP at producer's price was 4.6 percent in the same FY. In comparison to Annual percentage change which 14.7 percent and 3.9 percent in FY 2010/11 respectively.

Asian Development Outlook (2013) revealed economic performance of Nepal on the basic of main economic indicators as GDP growth rebounded to 4.6% in FY 2012 (ended 15 July, 2012) boosted by favorable monsoon and robust services growth despite a slowdown in industry and lingering political uncertainties.

The budget deficit narrowed marginally to 2.2% of GDP, owing to lower capital expenditure and greater revenue mobilization, improved efficiency in tax administration and wider tax base boosted tax revenue by an impressive 22.5% lifting it by a percentage point to 13.6% of GDP. However, the ratio of total revenue including grants to GDP improved by only half a percentage point to 18.3%. Total expenditure amounted to 20.4% of GDP, from 20.2% in the previous year. Recurrent expenditure jumbled by 42.7% to over large fuel subsidies and ad hour expenditure programs while capital expenditure contracted sharply from a year earlier due to lower project disbursement arising from lack of political consensus on a timely budget.

NRB, Monetary policy (2015/16) reviewed Domestic Economic situation. The GDP growth remained lower in 2014/15 compared to the previous year because of the contraction in the growth rate of agriculture sector due delayed monsoon and the negative impact of the April 25 earthquake and subsequent aftershocks. According to preliminary estimated of the central Bureau of statistics the real GDP grew by 3.0 percent at basic price and 3.4 percent at producer’s price in the review year. On the basis of cash flow data available as of 11 July 2015, total government spending increased by 18.9 percent to Rs. 440.99 billion. IN the corresponding period of previous year, such expenditure had increased by 9.6 percent out of the total expenditure, recurrent expenditure stood at Rs. 300.42 billion, capital expenditure at Rs. 56.63 billion and financing expenditure at Rs. 83.94 billion. Likewise, total resources mobilization of the government increased by 10.2 percent to Rs. 433.98 billion in the review year compared to an increase of 19.5 percent in the previous year. Out of the total resources, revenue collection increased by 12.8 percent to Rs. 380.64 billion. Since the government budget remained at surplus due to low government expenditure relative to resource mobilization in the review period, the cash balance of the government at the NRB stood at Rs. 72.04 billion.

The World Bank (2001) has observed that many factors have contributed in varying degrees to the lack of effectiveness of public spending in Nepal. There is little doubt that institutional factors (including deficiencies in planning, budgeting and expenditure monitoring process, as well as weakness in institution, particularly the civil service administration), have played a key role in the over programming of the budget, its lack of focus and prioritization and implementation problems. The eagerness of external donors to help has also encouraged over programming and the lack of prioritization of the public expenditure program. The lack of ownership of projects/programs at various levels and absence of accountability has also undermined the quality and effectiveness of public spending.

Pandey(2006) conducted that a thesis of :"An analysis of Budget structure of Nepal 1990/91 to 2002/03"remarks "the pattern of government expenditures show significance difference between receipt (revenue and grants) and expenditure .Total receipt of government has covered 68.26% of the annual government expenditure in the view period. Government expenditure recorded 18.84% to GDP whereas revenue was11.13% to GDP in average. The percentage of regular expenditure to total expenditure is increasing whereas the percentage of development expenditure is declining.

As a percent economic survey carried out in FY 2012/13it was pointed out that:

1. Gap between expenditure and revenue collection needs to be minimized for the fiscal balance, however, the increase in revenue is not keeping pace with the increase in expenditure. It therefore, calls for prompt actions towards gearing up revenue mobilization, improvement in current expenditure management and expansion in capital expenditures.

Adjustment made in the customs duties and excise, positive change observed in tax paying attitude, increase in non-tax revenue collection, to mention a few, have provided a breathing space due to positive change in revenue collection this year compared to the past performances. To maintain this momentum, the task of tracking and plugging leakage in tax revenue lies ahead.

2. Measure to make the tax administration fully automatic, to make the customs evaluation system more objective through administrative reforms, to simplify the income tax procedures and to reduce the tax exemption callings should receive priority attention.

3. Tax revenue has an important role in revenue generation. To further reap its to enhance taxpayer awareness through tax education should go a long way in increasing tax revenue.

4. Burden of foreign debt servicing on internal revenue has been raising due to the increasing use of foreign aid in the development works. To keep the foreign debt servicing liability within sustainable limit special focus to increasing national saving rate, avoiding as well as containing unproductive current expenditure, and making the development expenditure more productive is warranted.

5. In foreign aid, grant element needs to be enhanced and its use needs to be prioritized. Overall, rational utilization of foreign aid should be a matter of constant review (MoF,2013/14).

2.3 Research Gap

All the research work mentioned above are basically related to the budgetary structure, innovation and trend etc. These studies have found different results and have been drawn different conclusions in global as well as Nepalese context. Some of this research concentrated on the area of expenditure management and some, in contrast, on public resources management. Likewise, some research works have been done on public investments and growth and some on public expenditure and civil liberties, the relationship between government expenditure and revenue, GDP and the like. However, these all studies cover only some sectors of the budgeting system. Problem and prospects of budgetary system in after republic and political change in Nepal.

In the Nepalese context, as mentioned above, very few studies have been out. Some of them are deeply concerned on the trend and pattern of government expenditure in Nepal and some are guided by the perspective of taxation. Finding of these research states only the features, structure and trend of existing budgeting system.

None of the available works analysis budgetary situation in Nepal especially after liberalization of Nepalese economy. Similarly those earlier studies may not be attempting the empirical analysis of determinants of budget. Which in fact is a challenging issues among the Nepalese planner's policy makers, and social scientists hence a clear gap is seen among the research works available in the area of Nepalese budgetary system. This study entailed "A Study on the Budget of Nepal: Trend, Structure and Determinants" has attempted to fulfill this research gap and to suggest some policy recommendations for the future budgetary practice.

CHAPTER - III

RESEARCH METHODOLOGY

Research is essentially a systematic inquiry seeking facts through objectives verifiable methods in order to discover the relationship among them and to deduct from them broad principle. It is really a method of critical thinking by defining and redefining problems, formulating hypothesis, collecting, organizing and evaluating data, making deductions and making conclusions to determine whether they fit the formulated hypothesis. Thus the term ‘research refers to a critical, careful, and exhaustive investigation having as its aim the revision of accepted conclusions, in the light of newly discovered facts.

Methodology is systematic, theoretical analysis of the method applied to a field of study. It comprises the theoretical analysis of the body of method and principles associated with a branch of knowledge. Hence research methodology is the specific procedures or techniques used to identify, select, process, and analyze information about topic. The research section answers to main questions: How was data collected or gathered? How was it analyzed?

3.1 Conceptual Framework

This research is designed to examining the trend and pattern of Budget in Nepal and the more focused study is to examine the empirical relationship between government revenue, foreign grand and national debt and Budget in Nepal. For this purpose, the statement of problem is identified following with the listing of the objectives and hypothesis of the study. Once it is done the related data are collected through the secondary source of data and information. Then the tabulation and presentation of the data and information is prepared for the descriptive study of trend and pattern Budget in Nepal. Through those, the required variables are taken out. Then the possible model is built up. Then the appropriate statistical tests are performed for analytical method to find the quantitative information in presenting the relationship between Budget and it's determinates. For that purpose along with hypothesis testing, the use of appropriate Statistical software is done as per the demand of the research in coordination with the Thesis Supervisor.

3.2 Research Design

Research design is planned strategy of investigation conceived to obtain answer to research objective through analysis of data. The first step of the study is to collect necessary information and data concerning the study. Therefore, research design means the definite procedure and technique, which guides the study and propounds ways of doing research. It is the entire process of planning and procedure that are employed for carrying out a research study i.e. collecting, analyzing and interpreting the evidence.

This research is designed to examining the trend of Budget, structure and determinates in Nepal. For this purpose, the statement of problem is identified following with the listing of the objective of the study. Once it is done the related data are collected through the secondary source of data and information. Then the data based on time series are reorganized, regrouped and presented it in meaningful order as tabulation and graphical presentation have been made to make the information easily understandable and clearly visible. Similarly the model has been estimated by using Ordinary Least Square Method. To identify the significance of result, different statistical methods of different tests have been used.

3.3 Nature and Sources of Data

This analysis of the study attempts to get empirical results using only secondary data and information. The required data are collected from various published and unpublished sources of Economic Surveys, Ministry of Finance (MoF) and A Handbook of Government Finance Statistics, Nepal Rastra Bank.

3.4 Study Period Covered

Our empirical analysis is made covering the study period of 27 FYs from FY 1990/91 to FY 2016/17. This time series is taken into account that, restoration of democracy since 1990 in Nepal.

3.5 Tools and Method of Data Analysis

This thesis is based on secondary data so the required re-arrangement and processing of data has been done. Data are processed in computer using application programs like MS-Word, MS-Excel, E-views etc. To meet research objectives different statistical and mathematical tools like tables, figures, averages, percentages, Unit Root test, R^2,adjusted R^2 test, t-test, f-test, D-W test, Ordinary Least Square test, Breusch-Pagan-Godfrey Heteroscedasticity Test and Breusch-Godfrey Serial Correlation Test have been used.

3.6 Specification of Model

Regression equation has been used mainly to analyze the relationship between dependent variable i.e. Budget and independent variable i.e. Government revenue, Government foreign grant and National debt. The regression is used to show the degree and direction of the relationship between variable and it also provides a mechanism for prediction or forecasting. The theoretical statement of this regression model is that Budget is depends upon the government revenue, foreign grant and national debt. Mathematically, this can be written as:

$$B = \alpha + \beta_1 GR + \beta_2 GFG + \beta_3 ND + E_i$$

Where,

B = Government Budget

GR= Government Revenue

GFG= Government Foreign Grant

ND = National Debt (Domestic Debt + foreign debt)

E= Error term

α, β_1, β_2, and β_3 are the parameters

(Chiang and Wainwright)

3.7 Specification of Variables

In this study, for both quantitative and qualitative purpose various variables have been used that are explained as

a. Government Budget: A budget is an estimation of revenue and expenses over a specific future period of time and is usually compiled and re-evaluated on a periodic basis. It may include a budget surplus, providing money for use at a future time or a deficits in which expenses exceed income.
b. Government Revenue: Government revenue is money received by a government. It is an important tool of the fiscal policy of the government and is the opposite factor of government spending.
c. National Debt: National debt is the public and intra government debt owed by the federal government. It is the sum of foreign debt and national debt.

3.8 Hypothesis Testing

The following hypothesis is been tested to find the empirical relationship between Government Budget and its independent variables of Nepal.

Null Hypothesis (H_0):$\beta_1 = \beta_2 = \beta 3 = 0$.There is no significant impact of the Government revenue, foreign grant and national debt on Budget.

Alternative Hypothesis (H_1): $\beta_1 \neq \beta_2 \neq \beta_3 \neq 0$. There is significant impact of the Government revenue, foreign grant and national debt on Budget.

3.9 Statistical Test of Significance

a. Unit Root Test:- As a prelude to working with time series variables one must investigate whether underlying time series data is stationary or not. Failure to assess the stationary (or non-stationary) nature of the time series data may lead to spurious regression. Further, when forecasting or conducting tests for causality one can obtain results that may be miss –specified. A series Y_t is called stationary if its mean and variance over the time are constant and the covariance between two time periods is time invariant. Using mathematical notation it is expressed as following way:

$$E(Y_t) = E(Y_{t-1}) = \ldots\ldots\ldots\ldots = E(Y_{t-s}) = \mu,$$

$$V(Y_t) = V(Y_{t-1}) = \ldots\ldots\ldots\ldots = V(Y_{t-s}) = \sigma^2 \text{ and}$$

$Cov(Y_t, Y_{t-s}) = Cov(Y_{t-j}, Y_{t-j-s}) = \gamma_s$ [if it is set s = o, it is obtained that γ_o which is simply the variance of Y_t]

Unit Root Test can be tested by different methods like Dickey-Fuller Test, PP, ADF Test (Bhusal, 2013).

b. Test of the Goodness of Fit (R^2):- R^2 is used for judging the explanatory power, which measures the dispersion of observations around the regression line. It is essential, because the closer the observations to the line, the better the goodness of fit, that is the better explanation of the variables of Y by the change in the explanatory variables. R^2 shows the percentage of the total variation of the dependent variable that can be explained by the independent variables of the multiple determinations and the squire of the correlation coefficient. The formula to derive R^2 is mentioned below:

The model with k explanatory variables

$$R^2 = 1 - \frac{\sum e^2}{\sum y^2} = \frac{\hat{a}_i \sum yx_i}{\sum y^2} = \frac{\hat{a}_1 \sum yx_1 + \hat{a}_1 \sum yx_1 + \text{..........} + \hat{a}_k \sum yx_k}{\sum y^2}$$

Where, $y = Y - \overline{Y}$

$x = X - \overline{X}$ (Chiang and Wainwright)

Similarly,

Adjusted (R^2) can be calculated by following formula. It is denoted by $\overline{R}^2$.

i.e. $$\overline{R}^2 = 1 - \frac{\sum e^2 / n-k}{\sum y^2 / n-1}$$

Where, n = total number of observation

k = number of parameter (Chiang and Wainwright)

c. Test of Significance of the Parameter Estimates:- It is applied for judging the statistical reliability of the estimates of the regression coefficients. The following tests will be performed to test the hypothesis in the study:

i) t-test:- This test is performed in order to identify the statistical significance of an observed sample regression coefficient and the formula for calculating the value is:

$$t = \frac{\hat{a}_i}{SE(\hat{a}_i)}$$

Where,

$\hat{a}_i$ = Estimated value of a_i

$SE(\hat{a}_i)$ = Standard error of a_i (Chiang and Wainwright)

ii) F-test:- F-test is used to examine the overall significance of the model. The formula for calculation is:

$$F = \frac{R^2 / K - 1}{(1 - R^2) / N - K}$$

Where, R^2 = Coefficient of determination

K = Number of explanatory variables

N = Number of observations in the sample (Chiang and Wainwright)

iii) Durbin Watson (D.W.) Test:- This test is used for detecting serial correlation. In the presence of autocorrelation (Serial Correlation) the Ordinary Least Square estimators remain no longer efficient. As a consequence usual t and f tests cannot be legitimately applied. D.W. test being a most celebrated test can be computed as:

$$\text{D.W. (d)} = \sum_{i=2}^{t} (e_i - e_{i-1})^2 / \sum_{i=1}^{t} e_i^{\,2}$$

Where, e = the estimated error (Chiang and Wainwright)

CHAPTER IV
DATA PRESENTATION AND ANALYSIS

4.1 Introduction

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

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

This chapter presents an analysis of the trends of budgetary components of the GON budget like the government expenditure, revenue, deficit budget and debt of government during the period of 1990/91 to 2016/17.

4.2 Components of the Nepalese Budget

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

i. Government Expenditure
ii. Government Revenue
iii. Foreign Grant
iv. Loans (Internal and External)

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

4.3 Government Expenditure

Government expenditure refers to the expenses incurred by the government for the maintenance of the government and to preserve the welfare of society as a whole. In other words, it refers to the expenses made by public authorities i.e. (State Government, Central Government and Other Local Bodies) to satisfy the common wells of the people. It is for protecting the citizens for promoting the common and social welfare. Government expenditure was classified into two headings: Regular Expenditure and Development Expenditure till 2003/04. From the year 2004/05 the same has been classified as Recurrent Expenditure, Capital Expenditure and Principal Repayment Expenditure.

Nepal being a developing country, there is an urgent need of expending development expenditure. However, there is also a growing financing expenditure requirement in revenue collection. Situation of revenue receipts determines the amount necessary for foreign assistance and internal borrowing. The growth of government expenditure in Nepal has been phenomenal as evident from the fact that every finance minister ever since the beginning of the budgeting system in 1951 has presented a public expenditure program larger than that of the previous year (Adhikari, 2004). As the data is available from the fiscal year 1998/99 as per new classification, trend of public expenditure will be analyzed for the period 1998/99 to 2016/17. The main components are as follows.

4.3.1 Recurrent Expenditure

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

4.3.2 Capital Expenditure

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

4.3.3 Principal Repayment Expenditure

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

4.4 Trends of Government Expenditure

Appendix (A) shows that recurrent expenditure has heavily increased during the review period. In absolute term it has raised Rs. 3194.42 million in fiscal year 1998/99 to Rs. 51861.6 million in 2016/17. The percentage she gives clear idea of the heavier trend of recurrent expenditure. It is increasing in every fiscal year. In the year 1998/99, the percentage share of recurrent expenditure total expenditure was 53.61 percent which has increased to 61.64 percent in the year 2016/17. In an average it claims 60.88 percent of the total expenditure under the study period. This clearly should that government expenditure is increasing in absolute term to finance more expenditure on current activity.

The percentage share of recurrent expenditure to GDP shows increasing trend. However small fluctuation is seen during the review period. It was as low as 9.67 percent in fiscal year 1998/99 and that was as high as 22.69 percent in 2016/17. In an average it is 1379 percent of total GDP with in the study period.

However, capital expenditure of government has increased slowly as compare to recurrent expenditure. In absolute term it has increased during review period. Though capital expenditure has increased in absolute amount from Rs. 2299.21 million in fiscal year 1998/99 to Rs. 20874.9 million in fiscal year 1998/99 to Rs. 20874.9 million in fiscal year 2016/17. It shows fluctuating trend during the review period. In the fiscal year 2002/03, capital expenditure has decreased to 2235.61 million and has again incre3ased to Rs. 20874.9 million in fiscal year 2016/17. The percentage share of capital expenditure to total expenditure shows a continuous decreasing trend. It was a high as 38.59 percent in fiscal year 1998/99. However, it decreased and reached to 24.93 percent in the final year of the review period.

The percentage share of capital expenditure to GDP also has presented a fluctuation scenario. However, it indicated a upward trend in the recent years of the review period. This shows the little progress of the government to mobilize the resources on capital formation in the economy. Looking at the percentage share of capital expenditure to GDP it was 6.96 percent in 1998/99 while it has increased to 9.13 percent in the fiscal’s year 2016/17 and stood at 6.05 percent of the total GDP in average during the study period.

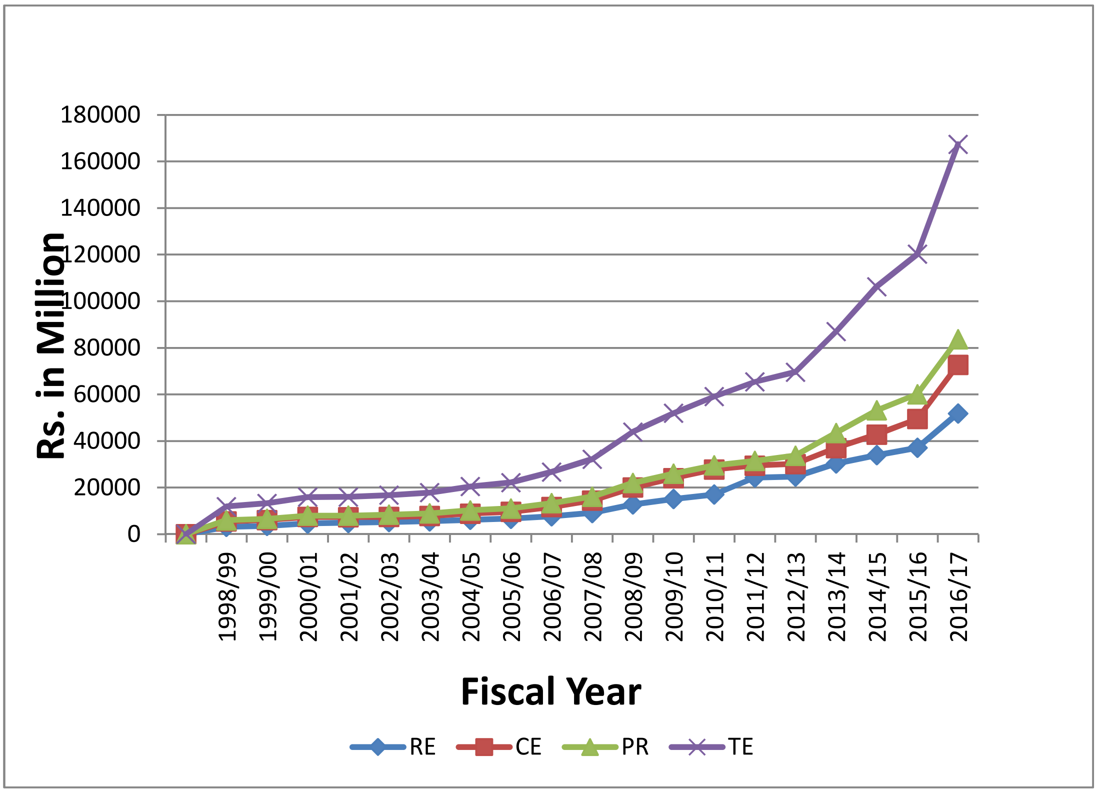
However, principal Repayment of internal and foreign loan shows increasing trend during period. It was Rs. 464.27 million in fiscal year 1989/99 and has increased by more than four times and reached up to Rs. 10988.3 million in 2016/17. Percentage share of principal repayment has also increased from 7.79 percent of total expenditure in 1998/99. And it has been little fluctuated during the fiscal year 2012/13 then reached 13.12 percent in fiscal year 2016/17. Increasing trend of recurrent expenditure and principal repayment expenditure has left only the little amount for capital expenditure which is base for growth and development in the economy.

While analyzing the percentage share of principal repayment of internal and external loan to GDP, it was 1.40 percent in fiscal year 1998/99 while that it has increased to

4.80 percent in the last year of the study period. In average, it is 2.50 percent of the total GDP with in the analyzing period.

To be clearer, the trend of Recurrent Expenditure, Capital Expenditure, Principal Repayment Expenditure and Total Expenditure are presented collectively in the graph pictured.

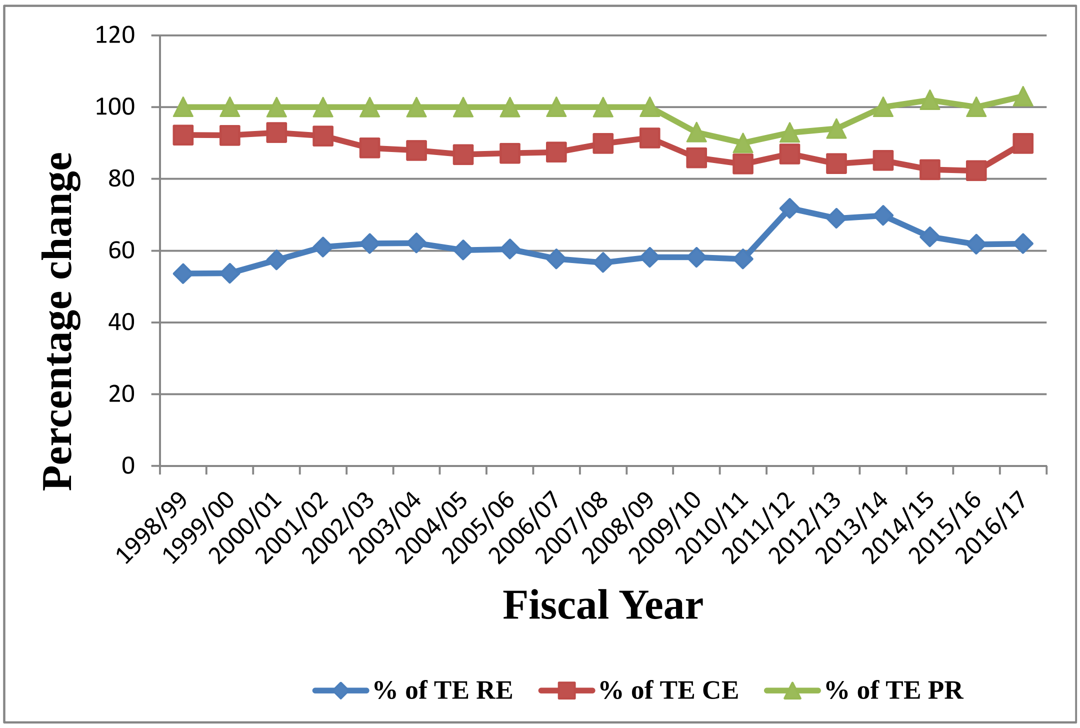
Figure: 4.1, Trends of Government Expenditure



Source: Research calculation through excel

Above figure depicts the trends of government expenditure i.e. Recurrent Expenditure, Capital Expenditure, Principal Repayment expenditure. All the expenditures are in increasing pattern since 1998/99 to 2016/17. It shows that the government expenditure has been increasing in every fiscal year.

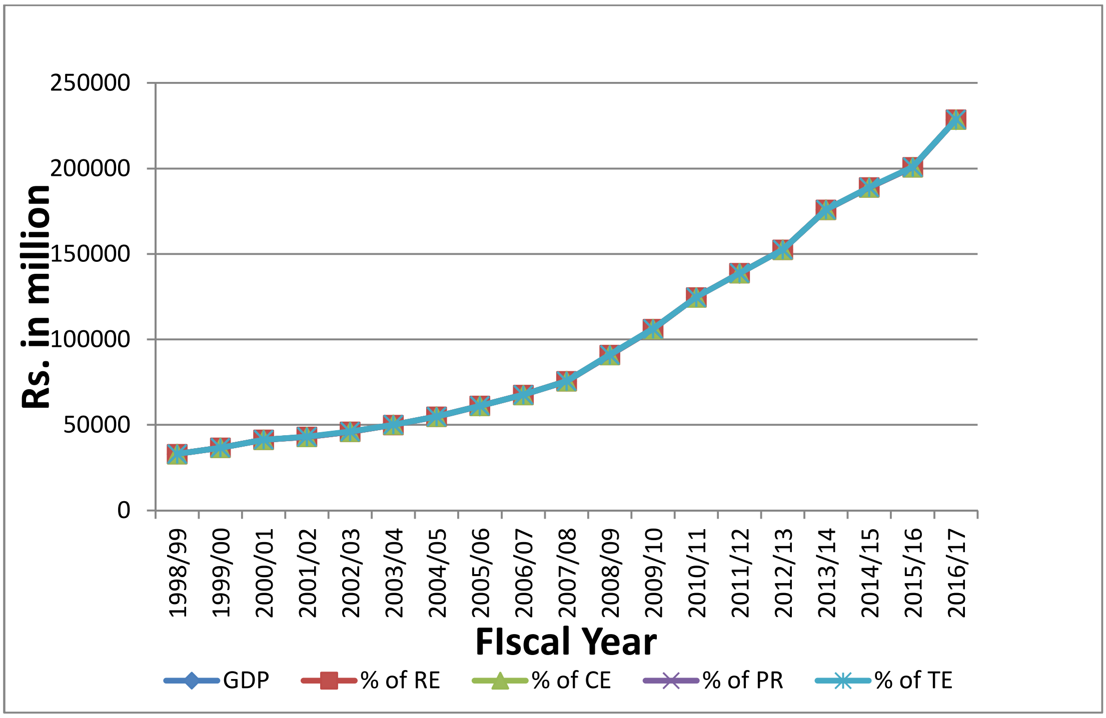
Figure: 4.2, Percentage Change of Total Expenditure



Source: Research calculation through excel

The Figure 4.2 clearly shows the percentage change of total expenditure. The trend of percentage change of total expenditure s is little bit fluctuation. All the expenditures are not in the same pattern. Although they are fluctuating, but also they are in increasing trend.

Figure: 4.3 Percentage Share on GDP of Total Expenditure



Source: Research calculation through excel

The figure 4.3 presents the total expenditure and its percentage share on GDP. The expenditure share on GDP also clearly shows the increasing trend. In every fiscal year the government expenditure with the ratio of GDP has been increasing.

4.5 Government Revenue

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

For developing countries like ours, the problems of development are enormous and complex in nature. A government needs income for the performance of a variety of functions and meeting its expenditure. Dalton has defined the revenue in two senses-wider and narrow senses. In a broad sense, it includes the income and receipts, irrespective of their sources and nature, which the government happens to obtain during any period of time. In the narrow sense, it includes, only those sources of income of the government which are described a revenue resources (Lekhi, 2008).So, it is widely recognized that government revenue are the major sources of resources for financing the public expenditure in developing countries. Nepal has also realized this fact. Therefore, Nepal has been making constant effort to increase the revenue in her every budget.

4.6 Trend of Government Revenue

Table (4.1) shows the trends in government revenue during the period of 1990/91 to 2016/17.

Table 4.1
Trend of Total Revenue (Rs.in million)

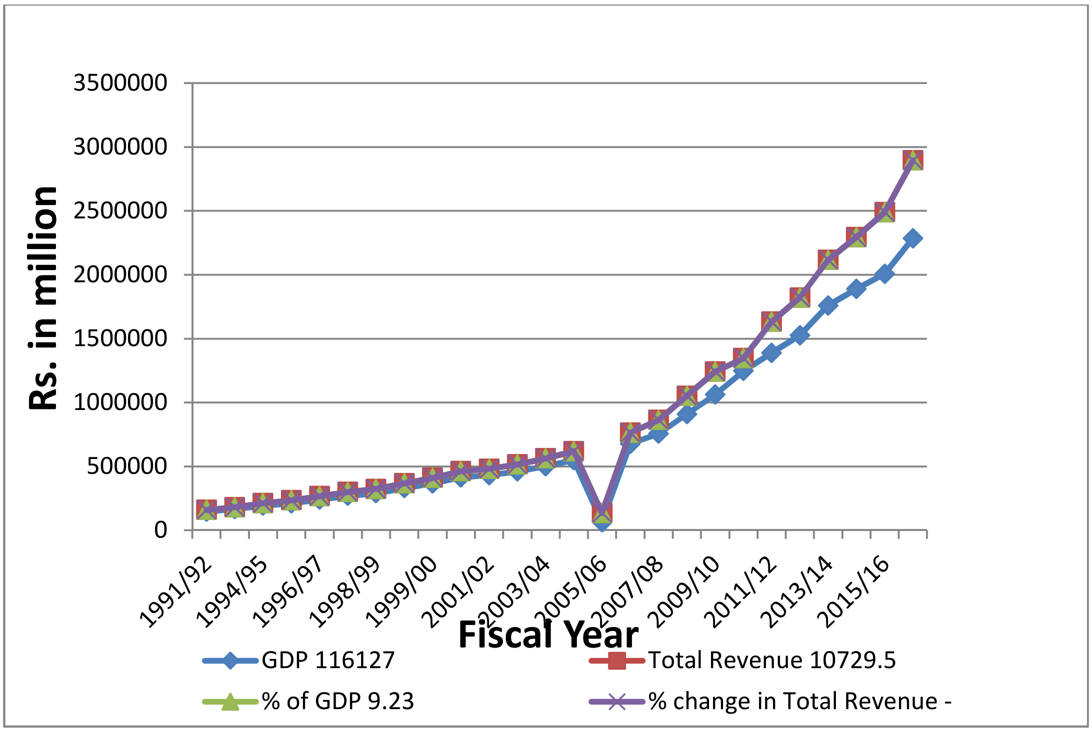
Fiscal Year	GDP	Total Revenue	% of GDP	% change in Total Revenue
1990/91	116127	10729.50	9.23	-
1991/92	144933	13512.70	9.32	25.93
1992/93	165350	15148.40	9.16	12.10
1994/95	191596	19580.90	10.21	29.26
1995/96	209976	24605.10	11.71	25.71
1996/97	239388	27893.10	11.65	13.50
1997/98	269570	30373.50	11.26	8.89
1998/99	289798	32937.90	11.36	8.44
1998/99	330018	37251.30	11.28	13.09
1999/00	366251	42893.70	11.72	15.15
2000/01	413428	48893.80	11.82	13.99
2001/02	430396	50446.60	11.72	3.17
2002/03	460325	54538.90	11.84	11.47
2003/04	500699	62331.00	12.44	10.85
2004/05	548485	70122.70	12.78	12.50
2005/06	61118	72281.90	11.82	3.07
2006/07	675859	87712.10	12.97	21.34
2007/08	755257	107622.50	12.24	22.69
2008/09	909309	143474.50	15.77	33.31
2009/10	1060881	179945.89	16.96	25.42
2010/11	1246423	99818.70	16.03	11.04
2011/12	1387481	244561.1	17.62	22.39
2012/13	1525220	296189.0	19.42	21.11
2013/14	1758738	356620.78	20.27	20.40
2014/15	1889409	405865.74	24.48	13.80
2015/16	2007274	481962.90	24.01	18.75
2016/17	2285323	609180.20	26.65	26.39
Average			14.18	
Annual Average Growth Rate				17.07

Source: Economic Survey, FY 2016/17 and 2017/18, MoF, Kathmandu

Table (4.2) reflects the continuous increasing trend of total revenue. In absolute term it has increased from Rs. 10729.50 million in 1990/91 to Rs. 609180.20 million in the year 2016/17 with an annual average growth rate of 17.01 percent. The percentage of total revenue to GDP gives clear idea of the increasing trend of government revenue. Government revenue was 9.23 percent of nominal GDP in 1990/91 and has increased to 26.65 percent of nominal GDP in 2016/17. On average, it covers 14.18 percent of the total GDP over the period under study. Though the government revenue has increased in each financial year compare to the previous year in absolute term but the increase in percentage terms s irregular during the period of the study.

From the above table 4.2, the trend of Total Revenue can be presented through the following figure

Figure: 4.4, Trend of Total Revenue



Source: Research calculation through excel

The figure 4.4 presents the trends of total revenue. The trend of total revenue depicts that in the fiscal year 2004/05, it has been increasing trend and in fiscal year 2005/06, its decreases at lowest point. After the fiscal year 2006/07, the trend of total revenue has been increased during the study period.

Table 4.2

Contribution of Tax and Non-tax revenue (Rs. in Million)

Fiscal Year	TR	GDP	Tax Revenue			Non-Tax Revenue		
			Amount	% of TR	% of GDP	Amount	% of NTR	% of GDP
1990/91	10729.50	11627	8176.30	76.20	7.04	2553.20	23.79	2.19
1991/92	13512.70	144933	9875.60	73.08	6.81	3637.10	26.91	2.50
1992/93	15148.40	165350	11662.50	76.98	7.05	3485.90	23.01	2.10
1994/95	19580.90	191596	15371.50	78.50	8.02	4209.40	21.49	2.54
1995/96	24605.10	209976	19660.00	79.90	9.36	4945.10	20.09	2.35
1996/97	27893.10	239388	21668.00	77.68	9.05	6225.10	22.31	2.60
1997/98	30373.50	269570	24424.30	80.41	9.06	5949.20	19.58	2.20
1998/99	32937.90	289798	25939.80	78.75	8.95	6998.10	21.24	2.41
1998/99	37251.30	330018	28752.90	77.18	8.71	8498.40	22.81	2.57
1999/00	42893.70	366251	33152.10	77.28	9.05	9741.6	22.71	2.65
2000/01	48893.80	413428	38865.00	79.48	9.44	10028.80	20.51	2.42
2001/02	50446.60	430396	3933.60	77.96	9.13	11116.00	22.03	2.58
2002/03	54538.90	460325	40896.00	74.98	8.88	13642.90	25.01	2.96
2003/04	62331.00	500699	48173.00	77.28	9.62	14158.00	22.71	2.82
2004/05	70122.70	548485	54104.70	77.15	9.86	16018.00	22.84	2.92
2005/06	72281.90	651118	57430.40	79.45	9.39	14851.50	20.54	2.43
2006/07	87712.10	675859	71126.70	81.09	10.52	16585.40	18.90	2.45
2007/08	107622.50	755257	85155.50	79.12	11.27	22467.00	20.87	2.97
2008/09	143474.50	909309	117051.90	86.85	12.87	26422.60	18.41	2.90
2009/10	179945.89	1060881	156294.90	86.46	14.73	23650.90	13.14	2.22
2010/11	199818.70	1246423	172777.60	86.47	13.86	27041.10	13.53	2.16
2011/12	244561.1	1387481	211722.60	86.57	15.26	32651.5	13.35	2.35
2012/13	296189.0	1525220	259215.5	87.51	16.99	36801.6	12.42	2.41
2013/14	356620.78	1758738	312441.1	87.61	17.76	44179.52	12.39	2.51
2014/15	405865.74	1889409	355956.6	87.70	18.84	49910.74	12.30	2.64
2015/16	481962.90	2007274	421037.7	87.37	20.98	60860.5	12.63	3.09
2016/17	609180.20	2285325	553867.7	90.92	24.24	53313.3	8.75	2.33
				81.13			19.04	2.68

Source: Economic Survey, FY 2016/17 and 2017/18, MoF, Kathmandu

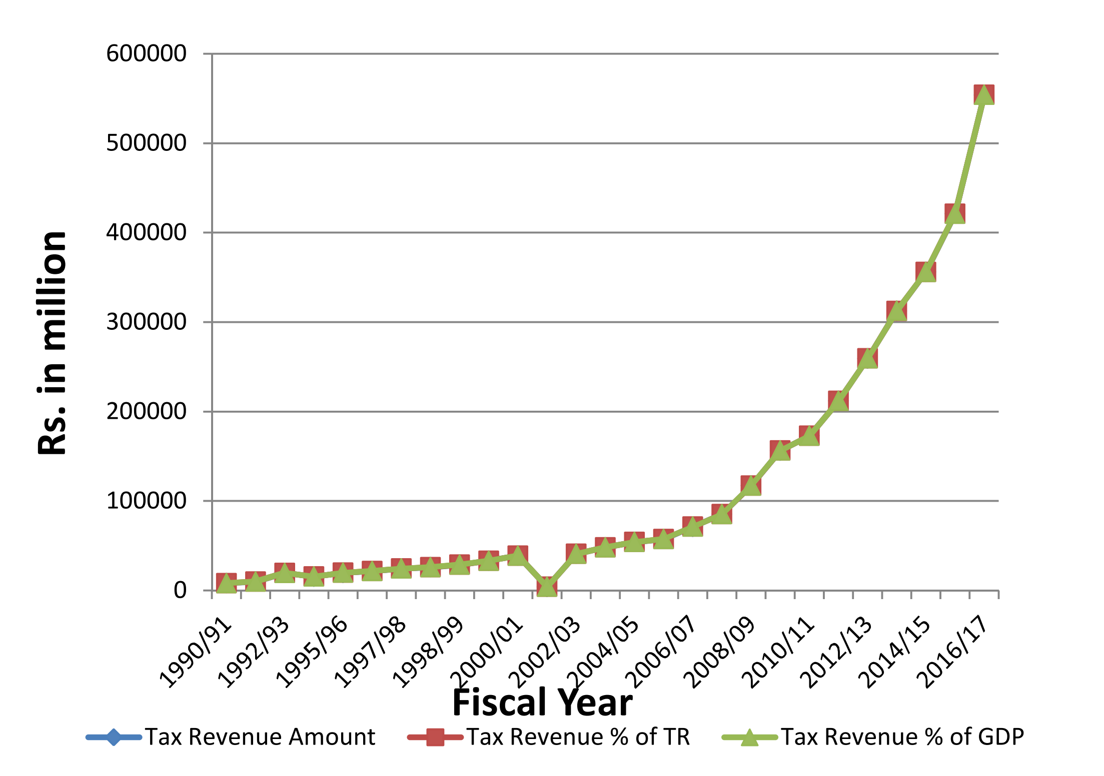
Both Tax and non-tax revenue has increased in absolute term during the study period. Tax revenue has increased to Rs. 609180.20 million in 2016/17 from Rs. 10729.50 million in 1990/91

The percentage of tax revenue to total revenue during the study period shows more or less same pattern. There is only small changes in the share of tax revenue in total revenue during 1990/91 to 2004/05 then it gets increasing trend. The share of non-tax revenue has also small fluctuations up to the period 2007/08 then it goes decreasing in recent period. Thus changes in the share of tax and non-tax revenue shows the fluctuating trend.

In the fiscal year 2016/17 the percentage of share of tax revenue to total revenue is as highest as 90.92 percent while it was as lowest as 73.08 percent in the year 1991/92. The percentage of tax revenue to GDP has presented a fluctuating scenario. It was as low as 6.81 percent in the fiscal year 1991/92 to as high as 24.24 percent of GDP in the fiscal year 2016/17 during the review period.

During the study period, non-tax revenue has presented a fluctuating scenario. The percentage of non-tax revenue to total revenue lies between 12.30 percent to 26.91 percent in the review period. The percentage of non-tax revenue to GDP has been as low as 2.10 percent in the year 1992/95. Coming to the fiscal year 2015/16 of the study it has been increased to as high as 3.09 percent of GDP whereas it is 2.33 percentages the final year of the review. To be clearer, the trend of Tax Revenue, Non-Tax Revenue and the Total Revenue are collectively presented in the graph pictured.

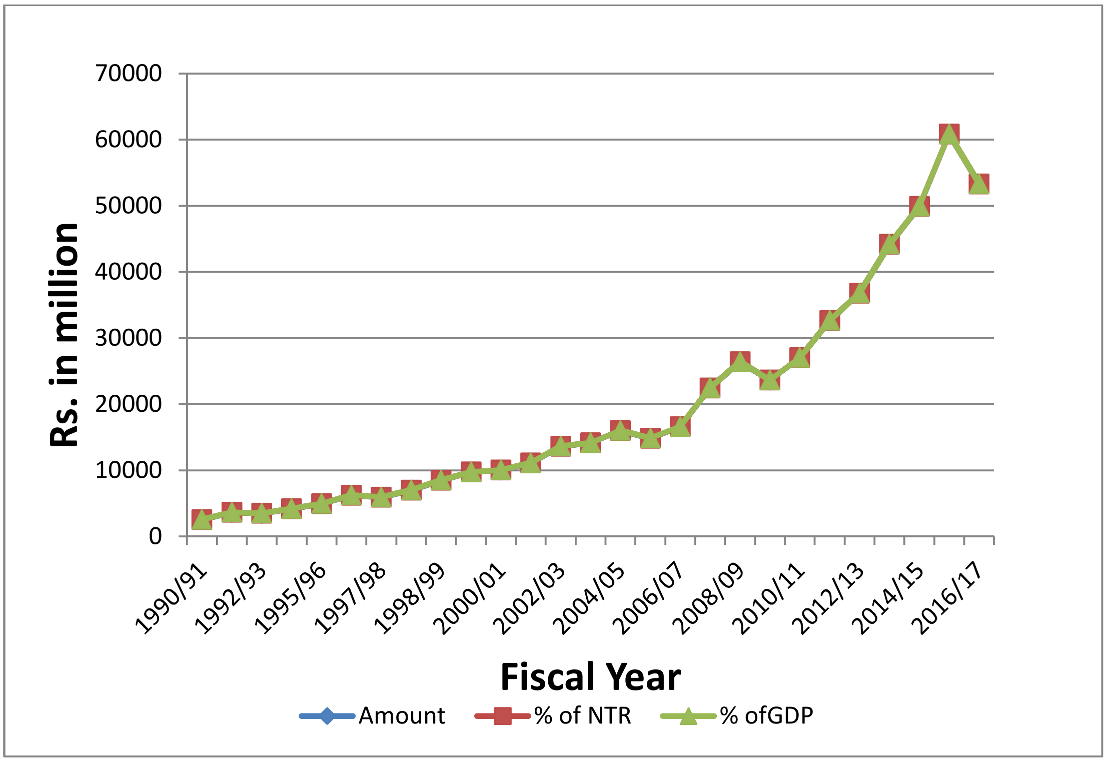
Figure: 4.5, Contribution of Tax Revenue and its share on GDP



Source: Research calculation through excel

The figure 4.5 shows that the trend of contribution of tax revenue and its share on GDP. Though the contribution of tax revenue has increased till the fiscal 2001/02, but in fiscal year 2002/03, it has been slightly decreased. Again, after the fiscal year 2003/04, the contribution of tax revenue and its share on GDP has been increased during the study period.

Figure: 4.6 Contribution of Non Tax Revenue and its share on GDP



Source: Research calculation through excel

The figure 4.6 also illustrate that the contribution of non- tax revenue and its share on GDP. The trend of contribution of non-tax revenue has slightly fluctuating pattern till the fiscal year 2009/10. After that it has been increased till the fiscal year 2015/16. But in fiscal year 2016/17 its contribution has decreased.

4.7 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.

The following table (4.3) elaborates the clear picture of Fiscal deficit and Budget Deficit.

Table 4.3

Fiscal Deficit and Budget Deficit

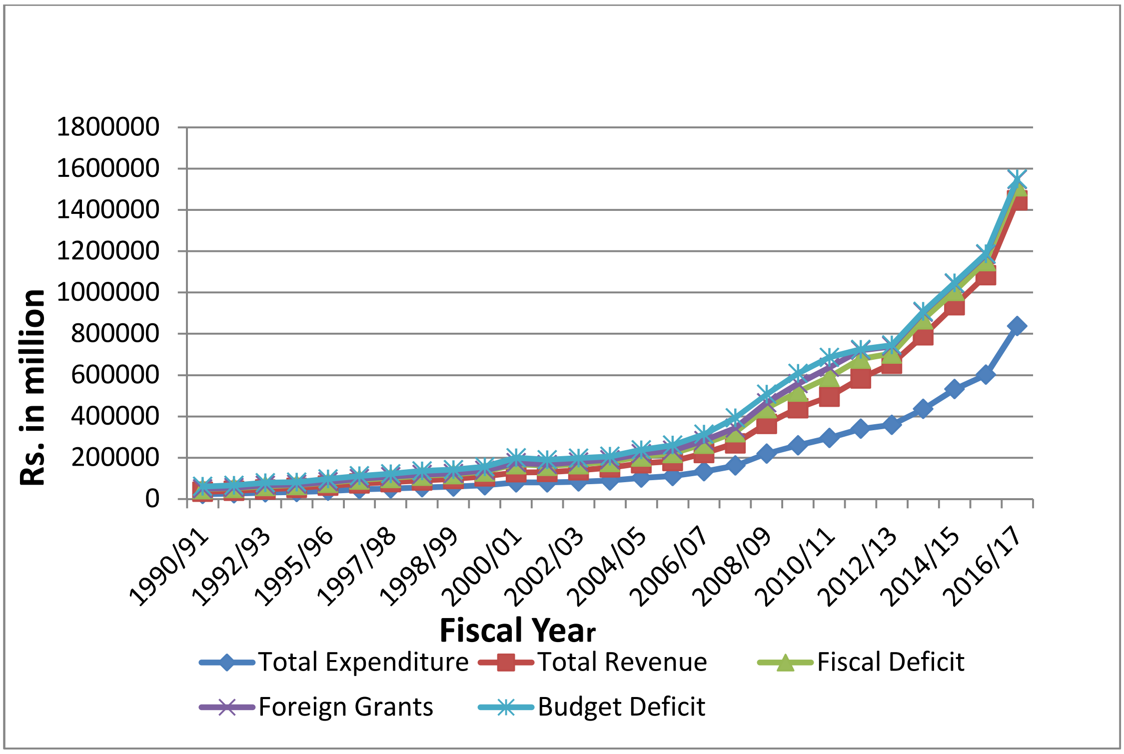
Fiscal Year	Total Expenditure	Total Revenue	Fiscal Deficit	Foreign Grants	Budget Deficit
1990/91	23549.8	10729.50	12820.8	2164.80	11190.30
1991/92	26418.2	13512.70	12905.50	1643.80	11374.30
1992/93	30897.7	15148.40	15749.30	3793.30	12475.40
1994/95	33597.4	19580.90	14016.50	2393.60	11622.90
1995/96	39060	24605.10	14454.90	3937.10	15178.80
1996/97	46542.4	27893.10	18649.30	4825.10	13824.2
1997/98	50723.7	30373.50	20350.20	5988.30	14361.9
1998/99	56118.3	32937.90	23180.40	5402.60	17777.8
1998/99	59579	37251.30	22327.70	4336.60	17991.10
1999/00	66272.5	42893.70	23378.80	5711.70	17667.10
2000/01	79835.1	48893.80	39413.30	6753.40	24187.90
2001/02	80072.2	50446.60	29625.60	6686.10	22939.40
2002/03	84006.1	54538.90	29467.20	11339.10	18128.10
2003/04	89442.6	62331.00	27111.60	11283.40	15828.20
2004/05	102560.4	70122.70	32437.70	14391.20	18046.50
2005/06	110889.2	72281.90	38607.30	13827.50	24779.80
2006/07	133604.6	87712.10	45892.50	15800.80	30092.70
2007/08	161349.9	107622.50	53727.40	20320.70	49804.70
2008/09	219662	143474.50	76187.50	26382.80	41197.21
2009/10	259689.1	179945.89	79743.21	38545.90	49622.50
2010/11	295363.4	199818.70	95544.7	45922.20	48773.20
2011/12	339167.2	244561.1	94793.4	40812.2	5379.61
2012/13	358638.5	296189.0	49033.1	35229.9	6383.55
2013/14	435052.4	356620.78	78430.0	33969.0	3895.66
2014/15	531558.7	405865.74	69520.0	36374.0	3315.20
2015/16	601016.0	481962.90	68639.0	32478.0	3247.80
2016/17	837248.6	609180.20	67732.0	31932.0	3193.20

Source: Economic Survey, FY 2016/17 and 2017/18, MOF, Kathmandu

In table (4.3) the absolute amount of fiscal deficit and budget deficit are both increasing from initial to the final year of the study. But the implement is in fluctuating nature. The absolute amount of fiscal deficit reached to Rs. 67, 732.0 million in fiscal year 2016/17 from Rs. 12820.8 million in fiscal year 1990/91. Similarly budget deficit reached to Rs. 3193.20 million in fiscal year 2016/17 from Rs. 1190.30 million in fiscal year 1990/91. The increased 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. 2164.80 million in fiscal year 1990/91 to Rs. 31932.0 million in FY 2016/17. Foreign grants have been increasing continuous but it does not have steady growth rate. The government receipt is not increasing in portion 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.

Figure: 4.7, Fiscal Deficit and Budget Deficit



Source: Research calculation through excel

The figure 4.7 presents the trends of fiscal deficit and budget deficit. And it also shows the trend of total revenue and foreign grants. The budget deficit can be obtained through the total revenue minus total expenditure. While the fiscal deficit is the difference of total expenditure and total receipts.

4.8 Empirical Estimation

Empirical analysis is the most important part of this study which shows the relationship between dependent variable and independent variables. It is the quantitative analysis of our research work. The current value of Government Budget, Government Revenue, Foreign Grant and National Debt are all converted into the real value using the GDP deflator with the base value of Rs.100 in FY 2000/01. In this study, simple linear equation is formulated and Ordinary Least Square Method is been used to analyze the relationship between Real Government Budget, which is dependent variable and its independent variables (Real Government Revenue, Real Foreign Grant and Real National Debt). The observed period is of 28 Fiscal Years from FY 1990/91 to FY 2017/18. All the statistical values are computed by using excel and E-Views software.

4.8.1 Regression Analysis

Government Budget, Gross Domestic Product, Foreign Aid and National Debt all are time series data. Thus, before checking the empirical relationship between them, it is necessary to check order of integration of the variables. The stationary of time series data is necessary for avoiding spurious regression analysis because it is impossible to get reliable results and making decisions with a non-stationary of the variables. For that purpose, Unit Root Test is conducted at first.

4.8.2 Augmented Dickey Fuller Test/ Unit Root Test

As it is described in chapter third, sub point 3.7.1.1 unit root test is tested one by one in level from and first difference. Each category further tested as intercept and another form is intercept and trend. The study introduces the variables Real Government Budget, Real Government Revenue, Real Foreign Aid and Real National Debt are checked one by one with the null and alternative hypothesis as follows:

H_0 = the variable is not stationary.

H_1 = the variable is stationary.

Table: 4.4

Identification of Order of Integration

Variables	Level Intercept	Intercept and Trend	First Difference Intercept	Intercept and Trend	Remarks
lnRGB	-0.8704 (0.7819)	-2.8340 (0.1964)	-5.9816 (0.0000)**	-5.938 (0.0003)*	I(1)
lnRGR	-1.0190 (0.7317)	-2.9859 (0.2495)	-6.1187 (0.0000)*	-6.1052 (0.0002)*	I(1)
lnRFG	-1.7478 (0.3970)	-1.2589 (0.8766)	-6.7785 (0.0000)*	-7.8789 (0.0000)*	I(1)
lnRND	2.3731 (0.9999)	-0.5836 (0.9679)	-5.0674 (0.0004)	-5.0835 (0.0022)*	I(1)

Source: Researcher's Calculation

Note: * shows 1% level of significance and numeric values between (…) express corresponding p-values and non-parenthesis are absolute t-statistics.

From the table it is clearly expressed that the Null hypothesis holds true of all the variables at level I(0), while all the variables are rejecting the null hypothesis at first differences I(1) at the significance level of 5% and 1%. So Ordinary Least Squares method can be used to check the relationship among the variables.

4.8.3 OLS Results

The regression results for the equation are presented in table 4.7. The regression equation is

$$lnRGB = 2.3364 + 0.6734lnRGR + 0.0818lnRFG + 0.0963lnRND$$

The above regression equation measures the contribution of Real Government Revenue, Real Foreign Grant and Real National Debt on Real Government Budget during the period 1990/91 to 2016/17. The coefficient of C has positive sign and is significant at 1 percent significant level. The independent variable Real Government Revenue, Real Foreign Grant and Real National Debt have positive and statistically significant relation with dependent variable Real Government Budget at one percent significant level. 1 percent increase in the value of current Real Government Revenue will raise Real Government Budget by Six hundred seventy three thousand rupees. 1 percent increase in the value of current Real Foreign Grant will raise Real Government Budget by eighty one thousand rupees and 1 percent increase in the value of current Real National Debt will raise Real Government Budget by ninety six thousand rupees.

Table: 4.5
Equilibrium of the Model

Independent Variables	Dependent Variable
	Real Government Budget
C	2.3363 (0.0000)*
lnRGR	0.6732 (0.0000)*
lnRFG	0.0818 (0.0003)*
lnRND	0.0963 (0.0013)*

Source: Researcher's Calculation through E-Views.

Note: * shows 1% level of significance and numeric values between (…) express corresponding p-values and non-parenthesis are absolute t-statistics.

4.8.4 Diagnostic Test

The diagnostic test provides tests for serial correlation, normality, heteroskedasticity in the residuals from our estimated equation. The result of diagnostics test is done and presented below in table 4.5.

Table: 4.6

Diagnostic Test

Diagnostic Tests	lnRGB Model
R-squared	0.9901
Adjusted R-squared	0.9889
F-statistics	F-statistic 801.3767 Prob(F-statisic) 0.000000
D-W test	1.2427
$\varkappa^2$ (Autocorrelation)	2.9967 (p-value=0.2235; lag = 2)
$\varkappa^2$ (Normality) / JB test	1.5810 (p-value = 0.4536)
$\varkappa^2$ (Heteroscedasticity) / BP test	1.3147 (p-value = 0.7257)

Source: Researcher's calculation through E-Views.

The above model's diagnostic result which was obtained from table 4.6 and Appendix shows that the model is good. The OLS model is overall good because F statistic is statically significant at less than 1 percent of significant level. R squared is 99 percent and adjusted R Square is 98 percent for the GDP model. The model should be free from the serial correlation for the further analysis of the model. According to the diagnostic test from the above table, it can be said that the model is overall good for further processes. Basically serial correlation LM test shows that the condition of the rejection of the null hypothesis means the model is free from serial correlation.

CHAPTER V

MAJOR FINDINGS, CONCLUSIONS AND RECOMMENDATION

5.1 Major Finding

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

After reestablishing democracy in 1990/91 and even after announcing Nepal as a Federal Democratic Republic in FY 2005/06, Governments of Nepal has attempted to increase the amount of expenditure and revenue which is clearly seen in its annual budget. The present study entitled on "A Study on Budget of Nepal: Trends, Structure and determinants" covers actual figures of the period of 27years (1990/91-2016/17). This study has tried to show the trend of government expenditure, revenue, and foreign aid, deficit financing and public debt in Nepal as well. The budgetary policy measure taken by the coalition government during the period of transition adopted 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.

In Nepal, it has been found that the government expenditure is increasing fast compared to revenue. Among the expenditure, regular expenditure probably has been increasing readily due to growing burden of debt service payments, maintaining law and order and providing salary to civil servants. Growing regular expenditure has become major concern to policy makers because it has been reducing the revenue surplus necessary to finance development expenditure. There is, on the other hand, decreasing the developing expenditure. It is because of numerous in project implementation resulted from frequent change in government. During the recent years, because of political instability, the development expenditure stood even below the regular expenditure. Obviously, such decaling situation of development expenditure would erode the productive capacities of economy through lack of basic socio economic infrastructure. The major finding as:

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 brunt 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. Lack of Monitoring Mechanism

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

7. 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.

8. 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.

9. Inconsistencies between Tax Policies and Programmers

To fill the resources gap from domestic front, government has introduced various tax policies with multiple objectives. In substance, the revenue related objectives of government stated in annual budget speech are hardily achieved to increase the share of direct tax for reducing economic inequality in the society, to reform the tax administration in order to increase the domestic resources mobilization, to reduce the tax rate which contributes for liberalization and provides relief to the people at large, to provide long term direction to revenue policy by making tax composition appropriate to consolidate tax revenue with economic activities and to make it elastic.

While conduction Augmented Dickey Fuller Test for Unit Root Test, we find that all the variables used for empirical study are stationary at first difference and Ordinary Least Square method was found suitable to use for empirical study. The study empirically found a strong and positive relationship between the growth of government budget and the economic growth (GDP at Factor Cost), using time series macro data for the period 1990/1991 to 2016/2017.we obtain the estimated regression line of Government Budget on Real Government Revenue, Real Foreign Grand and Real National Debt is as follows:

$\underline{\ln RGB = 2.3364 + 0.6734 \ln RGR + 0.0818 \ln RFG + 0.0963 \ln RND}$

The estimated regression line shows the positive and direct relationship between the value of Real Government Budget with the ratio of Real Government Revenue, Real Foreign Grand and Real National Debt.

Meaning of the coefficient:

α =2.3364 is the intercept of regression line made on Y-axis. the Government Budget is Rs. 2.3364 million when the ratio of Government Revenue , Foreign Grand and National Debt are simultaneously zero.

β_1=0.6734 is the average rate of change in Government Budget to the change in rate of Government Revenue and other variables remaining the same. This shows that the value of Government Budget increased by 0.6734 million when vale of Government Revenue increased by one million keeping Foreign Grand and National Debt unchanged.

β_2=0.0818 is the average vale of Government Budget to the change in value of Foreign Grand when Government Revenue and National Debt remaining the same. This indicates that the value of Government Budget increased by 0.0818 million when vale of Foreign Debt increased by one million keeping value of Government Revenue and National Debt are unchanged.

β_3=0.0963 is the average vale of Government Budget to the change in value of National Debt when Government Revenue and Foreign Grand remaining the same. This indicates that the value of Government Budget increased by 0.0963 million when vale of National Debt increased by one million keeping vale of Government Revenue and Foreign Debt are unchanged.

The diagnostic tests also show positive results. The R-squared (0.9901) and adjusted R-square = 0.9889 (This means 98.89 percent of total variation in dependent variable Government Budget is explained by the regression line and rest 1.11 percent is due to other factor) test shows that there is positive and strong relationship between Government Budget and Government Revenue and remaining independent variables. The result from F-statistics gives us clue about the overall goodness of the model. The Jarque-Bera Normality Test shows that the data used in the model are normally distributed. The Breusch-Godfrey Serial Correlation LM Test suggests that there is no auto correlation.

5.2 Conclusion

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

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

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

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

Government Revenue, Foreign Grand and National Debt are significant determinant of the Government Budget. There is positive and statistically significant relationship between Government Revenue, Foreign Grand and National Debt with Government Budget.

5.3 Recommendations

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

1. Government of Nepal needs adequate mobilization of domestic resources. As the government has not sufficient fund to meet its growing expenditure on recurrent and development program, therefore revenue has to be increased. This can be done by improving effective tax policy and tax administration. This also includes simplification of tax rates, rationalization of tax structures and expansion of tax net.
2. Revenue policies should be formulated with the objective of industrializing the agro based national economy through adopting a scientific tax system, transforming tax administration into electronic system to make it effective and attracting domestic and foreign investment through the relation of an investment friendly environment as well as trade facilitation.
3. A high level permanent central revenue board should be established with the objectives of determining revenue policy conducting revenue administration

based on short, medium and long term regular study and research on revenue policy, revenue administration and revenue related rules and regulations.

4. The tendency of revenue leakage in Excise, value Added Tax, Income Tax, and Custom Duty will be controlled by making information mechanism more effective.

5. In order to control revenue leakages a separate revenue police force has to been established and mobilized as emergency flying squad and revenue leakages should be strictly controlled.

6. Development of self-reliant economy by carrying out speedy development activities is the need of the day. For this purpose a stronger efforts for rapid mobilization of internal revenue is extremely important. This will induce the government to reject donor driven aid if it does not fit its priorities and program objectives. Moreover, introduction of performance budgeting or zero based budgeting to selective projects under key ministries would be an effective move towards this direction.

7. Allocating aspect of expenditure must be taken into consideration on the basis of national priorities so that productivity and production may increase within stimulated time period.

8. Bringing peace in the economy could save expenditure on defiance. Resource can be diverted to more economical and productive infrastructure development thus, there must be cut in defiance as well as unnecessary recurrent expenditure activities as well.

9. The size of overall budgetary deficits including grants has remained high mainly due to low revenue and high expenditure. This has led to heavy borrowing from internal and external sources. So for reducing the volume of borrowing, revenue collection is to be increased substantially in order to attain self-sufficiently in the long run.

10. Nepal is currently facing a serious problem of resource gap and this urgently needs to be narrowed. Budgetary deficit need to be reduced by mobilizing additional resources. The government should take a number of measures such as strengthening the tax administration, increase tax base to promote revenue generation and control of corruption.

11. Large proportion of internal borrowing comes from banking sector particularly from the central bank which is expansionary therefore this internal borrowing is to be kept within limitation.

12. The budget process needs to be made more responsive less "top down" and more “bottom-up" in terms of accommodating programs so long as they are consistent with sectorial strategies and priorities proposed by local level constituents and line ministries to improve the effectiveness of public spending. It is necessary to promote greater local ownership of the public expenditure program. It is also necessary to strengthen revenue consultation committee by providing legal status.

13. There should be a budgetary certainty regarding on the scheduled day of presenting the full-fledged budget for the whole fiscal year.

14. The budgetary decision should be carried out with social and economic objectives in view rather than fulfill political objectives.

15. Earmarking of funds can help better achieving the budgetary goals.

16. Announcing the budget through ordinance (special budget) bringing incomplete and persistent delay of budget, showing rude behavior and physical attack to the finance minister in the parliament etc. should be discouraged. All political parties and the members of the parliament must obey the parliamentary norms and values showing serious concerns about the fate of national economy and economic prosperity of Nepalese citizen with strong support and backup for the early budget presentation.

17. There should have strong unity among all political parties on national economic agenda and have consensus for the early and complete budget in such a manner that properly addresses the current issues of the national economy and maintaining the economic dynamism.

18. To establish the ownership of the people and enhance the public partnership in formulating budgetary policies and programs and policies in democratic system, Government should take valuable suggestions and advices from the leaders of the various political parties, member of the legislative-parliament, Economists, academicians professionals, commercial organizations, representatives of various professional, representatives of professional organizations and representatives of civil society as well.

19. Sectorial policies and programs of budget should be need based and priorities oriented such that they can contribute to trade facilitation, increase in investment, control in smuggling, increase feeling of security in public, increase in billing system of value Added Tax through the improvement in custom valuation and impact positively on overall revenue collection.

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Appendix A

Trends of Government Expenditure and Its share on GDP (Rs. in million)

Fiscal Year	RE	CE	PR	TE	% of TE							
					RE	CE	PR	GDP	RE	CE	PR	TE
1998/99	3194.42	2299.21	464.27	5957.9	53.61	38.59	7.79	33001.8	9.67	6.69	1.40	18.05
1999/00	3557.91	2548.07	521.27	6627.25	53.68	38.44	7.89	36625.1	9.71	6.95	1.42	18.09
2000/01	4583.73	2830.72	569.06	7983.51	57.41	35.45	7.12	41342.8	11.08	6.84	1.37	19.31
2001/02	4886.39	2477.24	643.49	8007.13	61.02	30.93	8.03	43039.6	11.35	5.75	1.55	18.60
2002/03	5209.05	2235.61	955.95	8400.61	62.00	26.61	11.37	46032.5	11.31	4.85	2.07	18.24
2003/04	5555.21	2309.56	1079.49	8944.26	62.10	25.82	12.06	50069.9	11.09	4.61	2.15	17.86
2004/05	6168.64	2734.07	1353.33	10256.04	60.14	26.65	13.19	54848.5	11.24	4.98	2.46	18.69
2005/06	6701.78	2960.66	1426.48	11088.92	60.43	26.69	12.86	61111.8	10.96	4.84	2.33	18.14
2006/07	7712.24	3972.99	1675.23	13360.46	57.72	29.73	12.56	67585.7	11.41	5.87	2.47	19.76
2007/08	9144.69	5351.61	1632.69	16134.99	56.67	33.16	10.15	75525.7	12.10	7.08	2.16	21.36
2008/09	12773.89	7308.90	1883.41	21966.29	58.15	33.27	8.57	90930.9	14.04	8.02	2.07	24.15
2009/10	15101.91	9023.77	1843.23	25968.91	58.15	27.74	7.09	106088.1	14.23	8.50	1.73	24.47
2010/11	17029.54	10784.75	1722.05	29536.34	57.65	26.51	5.83	124642.3	13.66	8.65	1.38	23.69
2011/12	24346.00	5139.1	2018.9	33916.7	71.79	15.15	5.94	138748.1	17.56	3.70	1.45	24.44
2012/13	24745.50	5459.8	3513.0	35863.8	68.99	15.22	9.79	152522.0	16.22	3.58	2.30	23.51
2013/14	30353.20	6669.5	6482.5	43505.2	69.77	15.33	14.9	175873.8	17.26	3.79	3.68	24.73
2014/15	33940.80	8884.4	10330.6	53155.8	63.85	18.71	19.43	188940.9	17.96	4.70	5.46	28.13
2015/16	37129.7	12325.1	10646.7	60101.6	61.77	20.51	17.72	200727.4	18.45	6.14	5.30	29.94
2016/17	51863.8	20874.9	10988.3	83724.8	61.94	27.93	13.12	228532.5	22.69	9.13	4.80	36.63
Average					60.88	27.60	10.80		13.79	6.05	2.50	22.52

Appendix B

Data Used in OLS Analysis

Fiscal Year	Budget	Government Revenue	Foreign Grants	Foreign Debt	Domestic Debt	National Debt	GDP deflator	RGB	RGR	RFG	RFD	RDD	RND	lnRGB	lnRGR	lnRFG	lnRFD	lnRDD	lnRND
1990/91	23549.80	10729.50	2164.80	6256.70	4552.70	10809.40	44.00	53522.27	24385.23	4920.00	14219.77	10347.05	24566.82	10.89	10.10	8.50	9.56	9.24	10.11
1991/92	26418.20	13512.70	2164.80	6256.70	4552.70	10809.40	44.00	60041.36	30710.68	4920.00	14219.77	10347.05	24566.82	11.00	10.33	8.50	9.56	9.24	10.11
1992/93	30897.70	15148.40	2164.80	6256.70	4552.70	10809.40	44.00	70222.05	34428.18	4920.00	14219.77	10347.05	24566.82	11.16	10.45	8.50	9.56	9.24	10.11
1993/94	33597.40	19580.90	2164.80	6256.70	4552.70	10809.40	44.00	76357.73	44502.05	4920.00	14219.77	10347.05	24566.82	11.24	10.70	8.50	9.56	9.24	10.11
1994/95	39060.00	24605.10	2164.80	6256.70	4552.70	10809.40	44.00	88772.73	55920.68	4920.00	14219.77	10347.05	24566.82	11.39	10.93	8.50	9.56	9.24	10.11
1995/96	46542.40	27893.10	2164.80	6256.70	4552.70	10809.40	44.00	105778.18	63393.41	4920.00	14219.77	10347.05	24566.82	11.57	11.06	8.50	9.56	9.24	10.11
1996/97	50723.70	30373.50	2164.80	6256.70	4552.70	10809.40	44.00	115281.14	69030.68	4920.00	14219.77	10347.05	24566.82	11.66	11.14	8.50	9.56	9.24	10.11
1997/98	56118.30	32937.90	2164.80	6256.70	4552.70	10809.40	44.00	127541.59	74858.86	4920.00	14219.77	10347.05	24566.82	11.76	11.22	8.50	9.56	9.24	10.11
1998/99	59579.00	37251.30	2164.80	6256.70	4552.70	10809.40	44.00	135406.82	84662.05	4920.00	14219.77	10347.05	24566.82	11.82	11.35	8.50	9.56	9.24	10.11
1999/00	66272.50	42893.70	2164.80	6256.70	4552.70	10809.40	44.00	150619.32	97485.68	4920.00	14219.77	10347.05	24566.82	11.92	11.49	8.50	9.56	9.24	10.11
2000/01	79835.10	48893.80	2164.80	6256.70	4552.70	10809.40	44.00	181443.41	111122.27	4920.00	14219.77	10347.05	24566.82	12.11	11.62	8.50	9.56	9.24	10.11
2001/02	80072.20	50446.60	2164.80	6256.70	4552.70	10809.40	44.00	181982.27	114651.36	4920.00	14219.77	10347.05	24566.82	12.11	11.65	8.50	9.56	9.24	10.11
2002/03	84006.10	54538.90	2164.80	6256.70	4552.70	10809.40	44.00	190922.95	123952.05	4920.00	14219.77	10347.05	24566.82	12.16	11.73	8.50	9.56	9.24	10.11
2003/04	89442.60	62331.00	2164.80	6256.70	4552.70	10809.40	44.00	203278.64	141661.36	4920.00	14219.77	10347.05	24566.82	12.22	11.86	8.50	9.56	9.24	10.11
2004/05	102560.40	70122.70	2164.80	6256.70	4552.70	10809.40	44.00	233091.82	159369.77	4920.00	14219.77	10347.05	24566.82	12.36	11.98	8.50	9.56	9.24	10.11
2005/06	110889.20	72281.90	2164.80	6256.70	4552.70	10809.40	44.00	252020.91	164277.05	4920.00	14219.77	10347.05	24566.82	12.44	12.01	8.50	9.56	9.24	10.11
2006/07	133604.60	87712.10	2164.80	6256.70	4552.70	10809.40	44.00	303646.82	199345.68	4920.00	14219.77	10347.05	24566.82	12.62	12.20	8.50	9.56	9.24	10.11
2007/08	161349.90	107622.50	2164.80	6256.70	4552.70	10809.40	44.00	366704.32	244596.59	4920.00	14219.77	10347.05	24566.82	12.81	12.41	8.50	9.56	9.24	10.11
2008/09	219662.00	143474.50	2164.80	6256.70	4552.70	10809.40	44.00	499231.82	326078.41	4920.00	14219.77	10347.05	24566.82	13.12	12.69	8.50	9.56	9.24	10.11
2009/10	259689.10	179945.89	2164.80	6256.70	4552.70	10809.40	44.00	590202.50	408967.93	4920.00	14219.77	10347.05	24566.82	13.29	12.92	8.50	9.56	9.24	10.11
2010/11	295363.40	199818.70	2164.80	6256.70	4552.70	10809.40	44.00	671280.45	454133.41	4920.00	14219.77	10347.05	24566.82	13.42	13.03	8.50	9.56	9.24	10.11
2011/12	339167.20	244561.10	2164.80	6256.70	4552.70	10809.40	44.00	770834.55	555820.68	4920.00	14219.77	10347.05	24566.82	13.56	13.23	8.50	9.56	9.24	10.11
2012/13	358638.50	296189.00	2164.80	6256.70	4552.70	10809.40	44.00	815087.50	673156.82	4920.00	14219.77	10347.05	24566.82	13.61	13.42	8.50	9.56	9.24	10.11
2013/14	435052.40	356620.78	2164.80	6256.70	4552.70	10809.40	44.00	988755.45	810501.77	4920.00	14219.77	10347.05	24566.82	13.80	13.61	8.50	9.56	9.24	10.11
2014/15	531558.70	405865.74	2164.80	6256.70	4552.70	10809.40	44.00	1208087.95	922422.14	4920.00	14219.77	10347.05	24566.82	14.00	13.73	8.50	9.56	9.24	10.11
2015/16	601016.00	531411.00	2164.80	6256.70	4552.70	10809.40	44.00	1365945.45	1207752.27	4920.00	14219.77	10347.05	24566.82	14.13	14.00	8.50	9.56	9.24	10.11
2016/17	400163.00	366697.00	2164.80	6256.70	4552.70	10809.40	44.00	909461.36	833402.27	4920.00	14219.77	10347.05	24566.82	13.72	13.63	8.50	9.56	9.24	10.11
2017/18	529070.50	452121.30	2164.80	6256.70	4552.70	10809.40	44.00	1202432.95	1027548.41	4920.00	14219.77	10347.05	24566.82	14.00	13.84	8.50	9.56	9.24	10.11

Appendix C

Ordinary Least square test

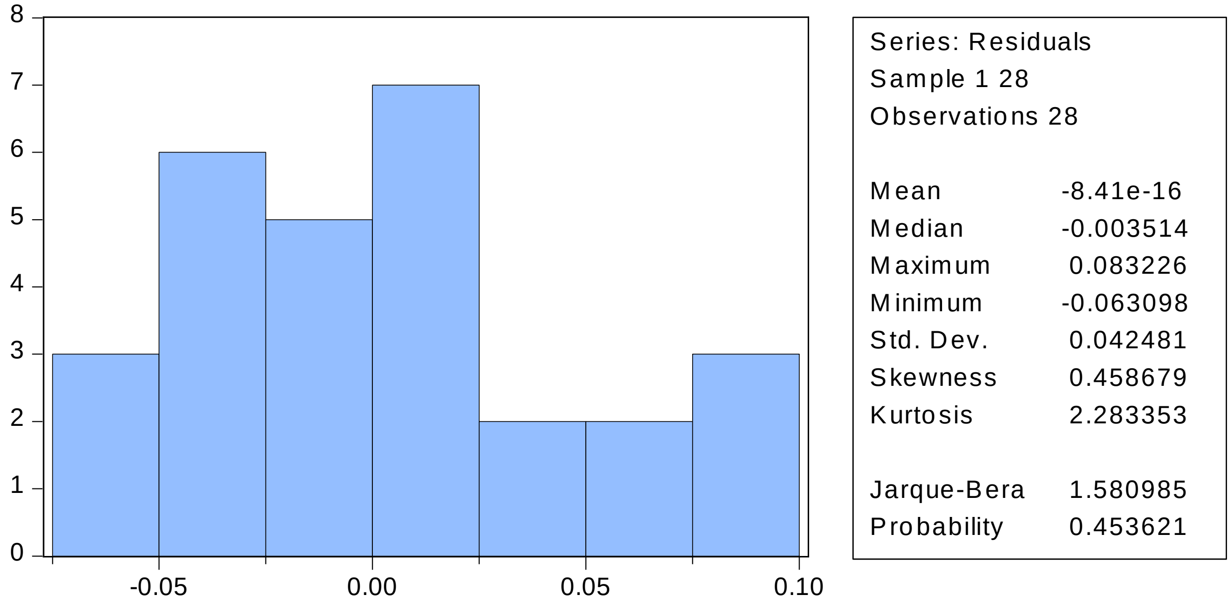
Source: Researcher's Calculation through E-Views

Dependent Variable: lnRGB Method: Ordinary Least Squares Sample : 1990/91 – 2016/17 Included observations: 28				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.3363	0.2736	8.5405	0.0000
lnRGR	0.6732	0.0188	35.8107	0.0000
lnRFG	0.0818	0.0191	4.2764	0.0003
lnRND	0.0963	0.0265	3.6280	0.0013
R-squared	0.9901	Mean dependent var		11.4540
Adjusted R-squared	0.9889	S.D. dependent var		0.4273
S.E. of regression	0.04506	Akaike info criterian		-3.2302
Log likelihood	49.2224	Hannan_Quinncriter.		-3.1720
F-statistic 801.3767 Prob(F-statisic) 0.000000		Durbin_Watson Stat 1.2427		

Appendix: D

Diagnostic Test for the Model

1. Normality Test: Jarque-Bera Test



Source: Researcher's Calculation through E-Views

1. Heteroscedasticity Test Breusch-Pagan-Godfrey for OLS Model

F-Statistics	Observed R Squared	Scaled Explained SS	Probability F (9,29)	Prob. Chi Square (9)	Prob. Chi Square (9)
0.3941	1.3147	0.6198	0.7584	0.7257	0.8919

Source: Researcher's Calculation through E-Views.

2. Breusch-Godfrey Serial Correlation LM Test

Lag Length	F-Statistics	Observed R-Squared	Probability	Chi-Square
2	1.3184	2.9967	0.2879	0.2235

Source: Researcher's Calculation through E-Views