

Nepal Budget FY 2080/81

Fiscal Deficits & Gasping for Sources

Need for Prudency, Fixated on Excess



Himalayan Capital

A Wholly Owned Subsidiary of Himalayan Bank Limited

1. Macroeconomic Highlights

Nepal government's budget for the fiscal year 2080/81 comes against a backdrop of an economic recession fuelled by import control measures and reduced credit disbursement. While measures undertaken to curb imports have been successful in propping up external sector indicators, deposit numbers have not grown as expected (11.01%) due to low growth in credit disbursement to private sector (3.96% YoY) which has disrupted economic activities despite a growth in Remittance Numbers (24.18%) at NPR 903.4 Billion.

Consequently, while import numbers at NPR 1201.5 Billion have gone down (-26.3%) due to control measures, export numbers at NPR 118.3 Billion have dwindled (-18.1%) as well, but due to relatively small proportion of exports compared to imports, and high inbound remittance the current account deficit (-89.85%), and Foreign Exchange Reserves (22.75%) both have recovered during the period.

The GDP growth for the FY is expected to be 2.16% as opposed to 8% as targeted by the previous budget; This can be attributed to the credit driven nature of our economy which has observed a broad slowdown as credit disbursement has reduced substantially as interest rates have remained high and avenues for investment (primarily trade) have been limited due to regulatory action. This has created an iterative cycle of low credit growth and low economic growth which complement each other in tandem.

Similarly, despite existing issues in the global supply chain and increase in grain prices, owing to regulatory stance Inflation Stood at 7.76% against its target of 7% despite a scenario wherein it could have gone much higher. Similarly, an ever-weakening India Rupee to which the NPR is pegged at 100:160 also boosted import numbers led to a increase in import numbers which would have been even lower otherwise, especially petroleum products whose import numbers still showed a growth of around 5.7%. Refined soyabean oil, the nation's key export showed a degrowth of 80.5% in the amount exported which led to an increase in the import to export ratio to 10.16.

Access to financial system has improved with the population to branch ratio reaching 2,510 up to Falgun of the FY compared to 2,572 last FY. Insurance coverage has extended from 38.3% of the population to 39.9% of the population; this number jumps up to 44.05% if we include foreign employment term life insurance. Refinancing for businesses affected

by the COVID-19 pandemic is currently outstanding at NPR 7.12 Billion as of Falgun 2079. Provision of compulsory PAN has further increased the scope of taxation as an additional 0.56 Million Taxpayers registered for a PAN in the FY. Total FDI has gone down from NPR 16.30 Billion to NPR 1.17 Billion (-92.8%) this FY.

Thus, with the deposit and credit creation cycle being affected due to reduced economic activity despite high remittance inflows and lower imports, meeting its GDP growth targets will be difficult for the government unless it eases its current monetary stance and takes a more expansionary stance once again. However, this will create its own issues as external sector indicators can worsen in a small time frame if the correct mix of policies is not put in place. Effective management of the same will be crucial for ensuring a sustainable growth path for the nation moving forward.



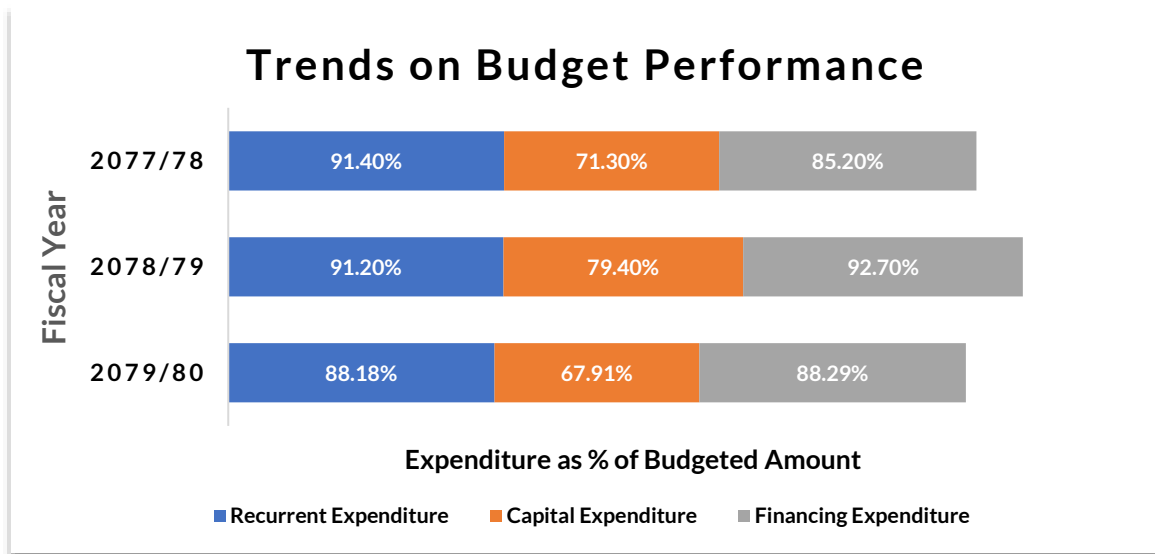
* All changes are based on the first nine months of the fiscal year

2. Budget Performance (2079/80)

With regards to overall performance, the budget for FY 2079/80 continued the trend of ballooning recurrent expenditure vis-à-vis total expenditure observed since 2063 B.S. However, owing to an inefficient expenditure mechanism, only 83.9% of the budgeted expenditure (~NPR 1.545 Trillion) is projected to be achieved in the FY.

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Recurrent, Capital and Financing Expenditures are projected to be 88.2%, 67.9%, and 88.3% of their respective allocated budgets. Total Tax collection is expected to stand at ~NPR 1.179 Trillion a 5.95% decrease on last year's actual numbers. Surely, the massive reduction in consumption owing to stringent import measures combined with reduced economic activity played a major role in reduced tax collections. Consequently, This FY will also be similarly challenging unless the government and the central bank are ready to lose some of the gains made in external sector indicators to prop up internal economic activity and ensure a good volume of tax revenue is collected through imports. Owing to these challenges, the budget performance has worsened compared to the previous Fiscal Years in addition to inefficiencies on part of the government to spend as per planned.



3. Budget Overview

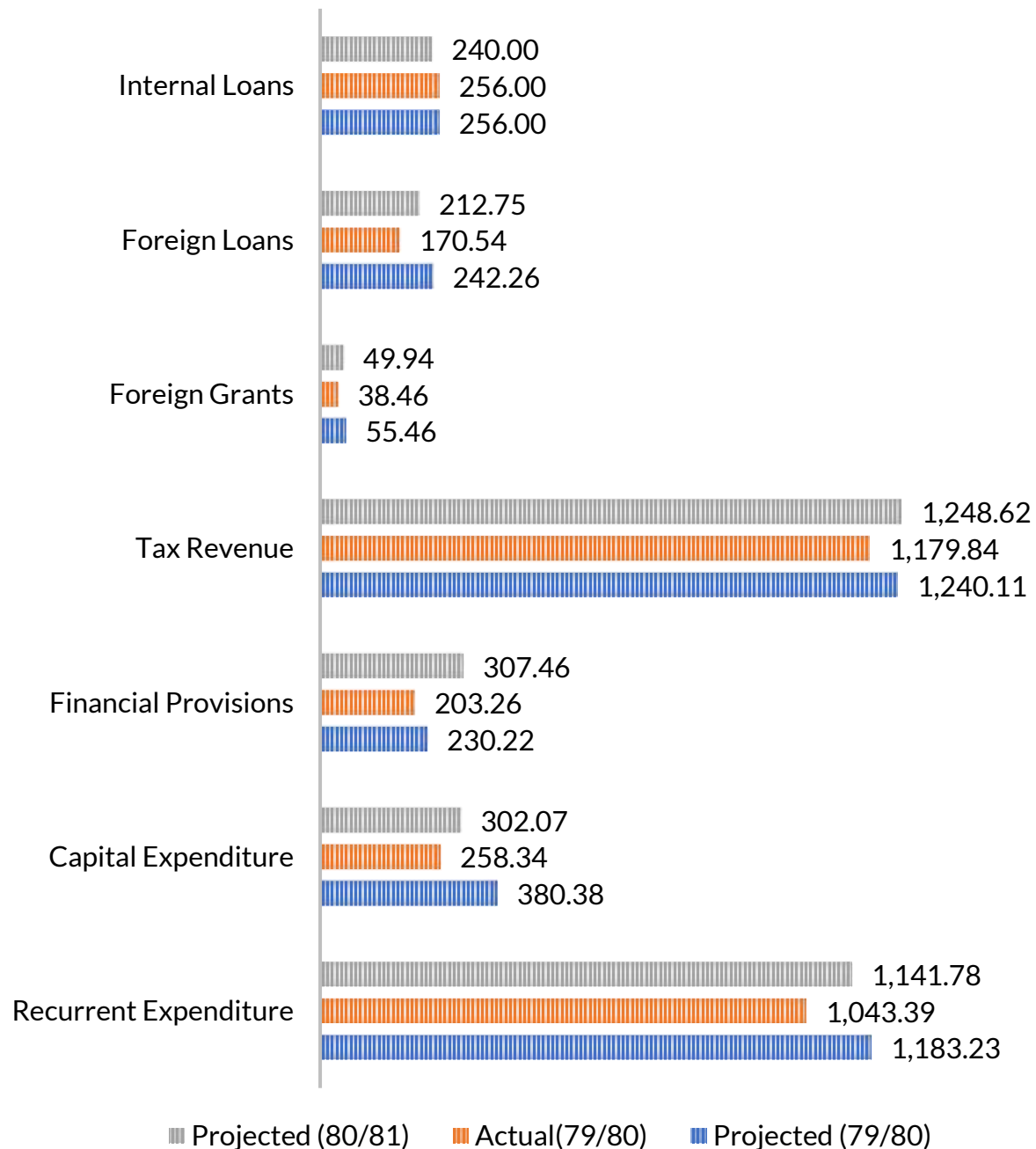
In continuation of the practice of presenting an Annual Budget for Nepal which Began In 2008 BS; Honorable finance minister Dr. Prakash Sharan Mahat on 15th Jestha, 2080 BS (29th May 2023 AD) presented to the house of representatives the budget for FY 2079/80. The Budget for the FY is projected at NPR

1.751 Trillion against a Tax Revenue of NPR 1.249 Trillion. As Tax Revenue alone is not sufficient to cover the total projected expenditure, Foreign Aid worth NPR 49.94 Billion, Foreign Loan of NPR 212.75 Billion and Internal Debt of NPR 240 Billion are to be

sourced to fulfill all the financial obligations under the budget. The budget intends to achieve an economic (GDP) growth rate of 6% in the FY.

Headings	Amount (Billion NPR)	Percentage Composition
Expenditure		
Recurrent	1,141.78	65.20%
Capital	302.07	17.25%
Financial Provisions	307.46	17.56%
Total	1,751.31	100.00%
Revenue/Receipts		
Tax Revenue	1,248.62	96.15%
Foreign Grants	49.94	3.85%
Total	1,298.56	100.00%
Projected Budget Surplus (+)/Deficit (-)	(452.75)	
Projected Deficit Financing		
Foreign Loans	212.75	46.99%
Internal Borrowing	240.00	53.01%
Total	452.75	100.00%

While the planned increase in foreign borrowing seems lower than projected in last year's budget on paper; It is actually 25% higher than the actual amount of foreign debt expected for the FY 79/80 at just NPR 170.53 Billion. Internal borrowing is also projected to be a bit lower than FY 79/80 as the sources crunch for the budget continues. With an already stressed credit market where liquidity issues are rampant; the increased internal borrowing from the government is sure to crowd out the private sector in the credit market. However, with interest rates decreasing gradually, the allocation of budget towards servicing of debt might be lower than expected.



A. Objectives:

- a) To achieve broad, sustainable and inclusive economic growth by making the economy dynamic,
- b) Ensuring quality social development, security and justice,

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- c) Raising the morale of the private sector by creating an investment-friendly environment and reducing poverty by creating income and employment opportunities,
- d) Maintaining macroeconomic stability,
- e) Strengthening federalism and maintaining good governance,
- f) To improve the effectiveness of public spending by improving budget system.

B. Priorities:

- a) Development of agriculture, energy and tourism sectors,
- b) Investment Promotion, Industrial Development and Trade Balance,
- c) Social Sector Development and Social Security,
- d) Construction of quality physical infrastructure,
- e) Promotion of digital and green economy,
- f) Environmental Protection, Climate Change Management and Disaster Management,
- g) Human resource development and job creation,
- h) Financial sector reforms,
- i) Strengthening financial federalism and improving service delivery,
- j) Reforms in the public finance system.



■ Recurrent Expenditure ■ Capital Expenditure ■ Financial Provisions

Recurrent Expenditure for the FY is budgeted at NPR 1,141.78 Billion, Capital Expenditure is budgeted at NPR 302.07 Billion and Financial Management Expenditure is budgeted at NPR 307.46 Billion.

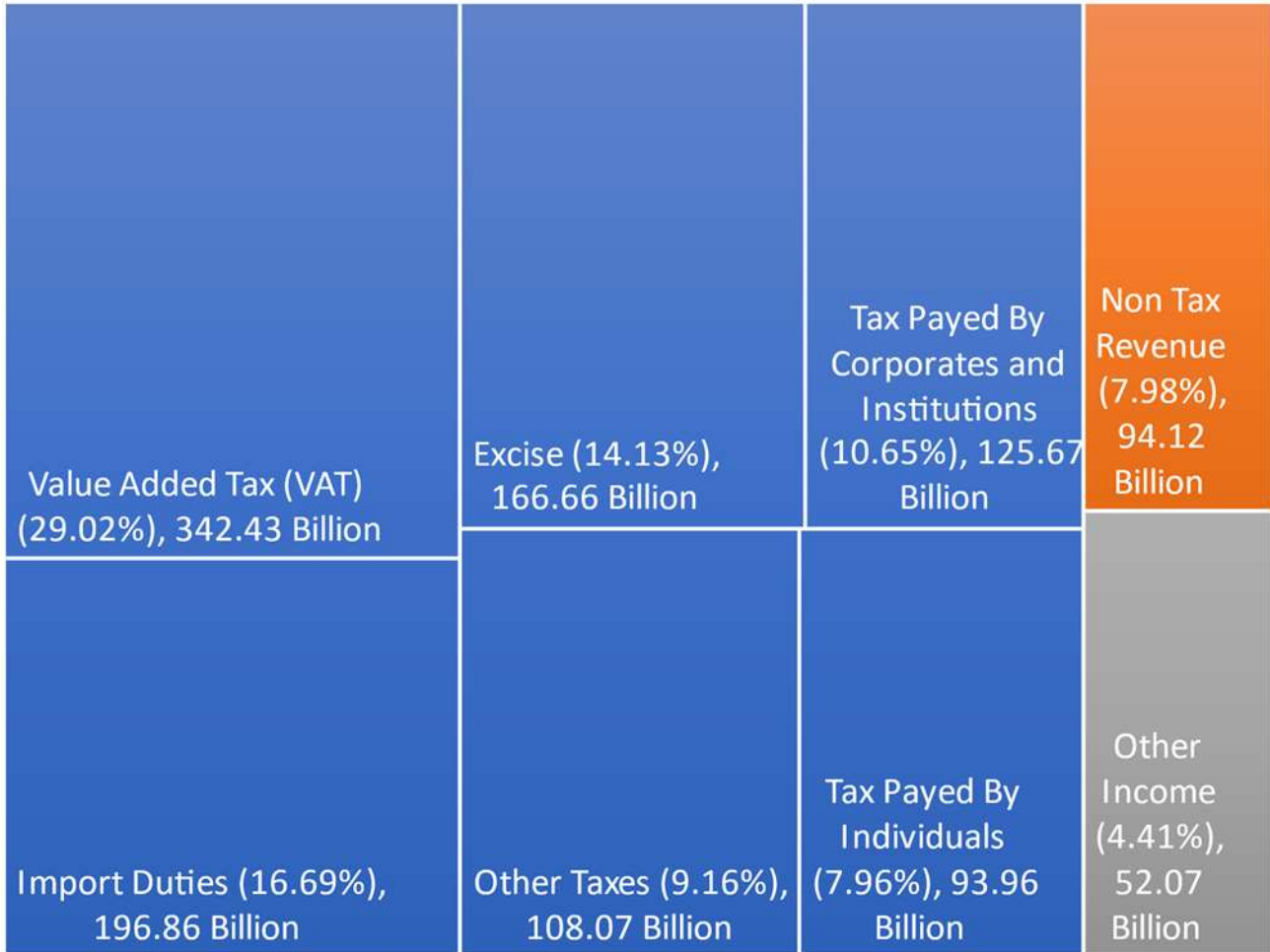
Sectoral Distribution of the Budget (NPR In Billion) for specific areas is as follows:



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C. Revenue Distribution

The Revenue Sources for the Budget are as follows:



■ Tax Revenue ■ Non Tax Revenue ■ Other Income

As can be seen, the total tax revenue of the nation can barely support even its recurrent expenditure (federal, provincial, and local) which is a very worrying sign. While additional protections and increase in facilities in social security and protection are good, they must coincide with an increase in revenue sources that can support their effective functioning in the long run. Care needs to be taken in this regard.

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D. Improvements Proposed in Budgeting Process

Reforms in Budgeting System and Improvement in Effectiveness of Capital Expenditure

- a) Ministerial budget limits will be determined, and the principles and priorities of the appropriation bill will be submitted to the federal parliament by mid-February to formulate a realistic budget based on discussions and suggestions.
- b) Funds will be allocated to projects of large and strategic importance, with quick returns and benefiting the majority of the people, in order to improve resource allocation.
- c) Only projects with detailed feasibility studies, land acquisition, and other preparations completed will be included in the annual budget and program, with contract agreements made only for projects that meet necessary requirements.
- d) A budget implementation action plan will be formulated and implemented by the end of Ashar, monitored by the Office of the Prime Minister, Ministry of Finance, and National Planning Commission. The ministry or agency implementing the approved program will prepare and implement procedures and guidelines by the end of shrawan.
- e) In order to assess the environmental impact, a legal arrangement will be made to ensure the number of trees to be felled and the species and the area of the forest to be used. It will be arranged that the Ministry of Forestry and Environment should give a decision within thirty days if the environmental impact assessment report is submitted for approval. According to the environmental impact assessment, if there is a difference of up to ten percent in the number of trees to be cut, the law will be amended so that a supplementary environmental impact assessment is not required.
- f) After the environmental impact assessment report is approved, arrangements will be made for simultaneous approval of forest area use and tree felling by the Government of Nepal. In this way, it will be arranged that the tree felling order should be given within fifteen days after receiving the approval. I am confident that the process of approving forest rights and tree felling will be simplified and the implementation of the project will speed up.
- g) The requirement to deposit funds in the Forest Development Fund will be abolished for priority projects, allowing tree planting in alternative locations if land is not available nearby.

- h) The Land Acquisition Act will be amended to simplify the land acquisition process, establishing standards for compensation based on assessments by the land office, local level, and banks.
- i) Measures will be taken to address issues with resource management, including improving the system for requesting and approving resource consents and setting limits on project allocations.
- j) Resource consent for projects other than national pride projects will have a maximum duration of three years, automatically canceling if no contract agreement is reached within nine months. Existing projects that meet these criteria's will have their resource consent revoked.
- k) Amendments will be made to simplify and improve the public procurement process, implementing e-bidding and extending it to all public bodies.
- l) Contracts for projects should be managed within the month of Kartik, with allocated funds withheld for programs that do not proceed with the contract process during that period. Transfer of funds for projects aimed at remote and backward community will be strongly discouraged.
- m) Project and department heads will be held responsible for achieving development goals, with criteria set for selecting project leaders and minimizing frequent leadership changes.
- n) The construction business will be made efficient and transparent, implementing an integrated information system to monitor contract agreements and taking legal actions for negligence.
- o) Measures will be taken to facilitate the supply of construction materials, including the extraction of stones, gravel, and sand from suitable mines.
- p) Foreign aid will be mobilized in the productive sector while analyzing the sustainability of public debt and focusing on areas that bring more returns.
- q) Development infrastructure, such as roads, schools, and health institutions, will be selected and implemented to benefit the majority of the people after mapping necessary requirements.
- r) The monitoring system for projects will be improved, and a monitoring committee will be formed to enhance implementation effectiveness and provide guidance for projects with a value above NPR 1 Billion.

Frugality in Public Expenditure

- a) Recommendations from the Public Expenditure Review Commission, 2075 will be gradually implemented, including the abolition of 20 institutions with dual mandates and merging entities with similar scopes of work. Tourism promotion and development committees will be transferred to the appropriate provincial and local levels. The relevant ministry must complete the management of assets and liabilities of abolished agencies by the end of November.
- b) In order to manage resources more efficiently, all types of incentive allowances, overtime allowances, and other allowances of government employees will be canceled for the next financial year. New vehicle and furniture purchases will be halted, and no new buildings will be constructed except for essential needs. Economy measures will be implemented in administrative expenses, including fuel and office supplies. Non-essential foreign visits will be discouraged.
- c) Cash for fuel will be provided to officials who are eligible for vehicle facilities based on approved standards. A system will be introduced to provide a lump sum cash amount to officials instead of government vehicles to control increasing expenses related to operating and managing government vehicles.
- d) No new structures or positions will be created in government services, regulatory bodies, and public institutions in the upcoming financial year. The existing structure and positions in public administration will be reviewed and streamlined. The organization and management survey must be completed by relevant ministries and agencies by Mangshir of the financial year.
- e) Separate structures or agencies for work already carried out by existing government structures will not be allowed. Consulting services and service contracts beyond approved posts will not be permitted.
- f) Old and unused vehicles and goods in government agencies will be auctioned off within six months.

Economic Reforms and Promotion of Private Sector

- a) Implement structural reforms aimed at reducing business costs, increasing competitiveness, and improving efficiency in order to drive the economy's transformation. This includes strengthening institutions, attracting domestic and foreign investment, developing a green economy, promoting information technology and innovation, and setting the private sector as drivers of change and reform.

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- b) Create a business-friendly environment to enhance the morale of the private sector and attract domestic and foreign capital and technology. This can be achieved through the introduction of sectoral policy and procedural reforms that encourage investment, leading to increased production and productivity.
- c) Promote the digital economy by investing in communication infrastructure, establishing a digital bank, and fostering the information technology industry. This will result in lower transaction costs, time savings, increased efficiency, improved transparency, good governance, and enhanced competitiveness in economic activities.

E. Implications

The major implications of the budget besides already existing programs and policies for various specific areas are as follows:

Production, Employment Generation and Innovation

- a) Implement a self-reliant economy by promoting national production at the local level, increasing production and employment opportunities based on local economic potential. Focus on commercializing agriculture, promoting micro and small industries, developing information technology and the tourism sector. Allocated, NPR 7 billion for Employment Promotion Program.
- b) Encourage domestic production and consumption through the Prime Minister's Nepali Production and Consumption Enhancement Program. Support small and medium industries using indigenous raw materials, including processing, technology upgrading, storage, and marketing. Promote industries with high internal consumption such as agriculture, ready-made garments, pharmaceuticals, and footwear. Allocated NPR 0.5 Billion for this program.
- c) Adopt a policy of allocating at least one percent of the government's total capital budget to research, innovation, and invention. Establish a separate fund with NPR one billion for research and innovation, and formulate the necessary laws to operate the fund. Coordinate research and innovation programs from various government agencies, encourage provinces and local levels to contribute funds, and establish a dedicated unit in the Ministry of Education, Science, and Technology.
- d) Develop a startup ecosystem to foster innovation and entrepreneurship. Operate an incubation center in Kathmandu to promote entrepreneurial thinking and transform ideas into businesses. Encourage venture capital and private equity funds to invest in

startups, and mobilize foreign investment for innovation and entrepreneurship development. Allocated NPR 1 billion for supporting startups.

Internal and External Investment Promotion

- a) Eliminate fees and charges for registering new companies and increasing their capital. Simplify and make the process transparent for online registration and cancellation of companies. Companies can be established with capital of just NPR 100. Simplify visa processes for investors and skilled manpower in foreign-invested industries.
- b) Establish a single point service center and electronic system for industry registration and investment approval. Review legal arrangements related to land leases and demarcations to facilitate the establishment of productive and export industries.
- c) Develop a national portal to provide investors with necessary information including investment areas, opportunities, legal and policy arrangements, incentives, and procedures for investment returns.
- d) Amend labor laws to adopt a flexible labor policy for IT and innovation-based industries. Provide grants through the Technology Development Fund to encourage the use of clean energy and green technology in industries.
- e) Maintain legal and policy stability for foreign investment. Simplify and automate the foreign direct investment approval process. Review and set regional minimum limits for foreign investment.
- f) Remove limits on foreign investment in the IT industry. Provide foreign exchange equivalent facilities for IT service exporters to establish contact offices in third countries and purchase software or equipment.
- g) Streamline approval processes for industries open to foreign investment. Exempt reinvestment of income earned from foreign investment from approval requirements. Review and make practical the time limit for bringing in foreign investment.
- h) Establish an infrastructure fund with the participation of domestic and foreign investors to mobilize private capital in national infrastructure projects. Introduce viability gap funding and public-private partnerships using the hybrid annuity model for large infrastructure projects.
- i) Enhance the capacity of the Investment Board to promote foreign investment. Organize an investment conference to attract foreign investment in areas of comparative advantage. Invite foreign investment proposals for major projects such as expressways, tunnels, and hydropower with reservoirs.

- j) Prepare the necessary legal infrastructure to mobilize long-term capital from the international financial market. Raise investable capital through new financial instruments like local currency-based green bonds and energy bonds for large-scale hydropower projects, transmission lines, and other infrastructure.
- k) Facilitate access to loans from foreign financial institutions and other entities for the private sector. Mobilize foreign capital using alternative and innovative instruments including blended finance to increase production and productivity.
- l) Advance the country credit rating process to improve the investment environment. Provide hedging services to foreign investors through a hedging organization to reduce foreign exchange risks.
- m) Ensure security for foreign investment. Simplify the process of repatriating dividends for foreign investors. Establish bilateral investment promotion and protection agreements and double taxation exemption agreements with countries identified as potential destinations for foreign investment. Incorporate international tax principles into the national tax law to gain the trust of foreign investors.
- n) Support and encourage the Make in Nepal and Made in Nepal campaigns initiated by the private sector to promote and expand indigenous production. Mobilize the capital, technology, experience, and skills of non-resident Nepalese with priority for national development.

Transformation of Agricultural Sector

- a) Emphasize increasing production and productivity in the agricultural sector, including modernization, commercialization, and proper storage and marketing arrangements.
- b) Provide agricultural subsidies based on production, except for specific items like seeds, fertilizers, insurance, and mechanization. Implement new standards and procedures for systematic and transparent grant distribution.
- c) Ensure self-sufficiency in quality seed supply, encouraging private sector involvement and providing subsidies to farmers purchasing quality seeds.
- d) Protect and expand cultivation of traditional and nutritious crops, branding and supporting products like Marsi paddy, ginger, coffee, and potatoes.
- e) Allocated funds for fertilizer subsidies worth NPR 30 Billion and improve the procurement process. Work towards establishing a domestic fertilizer factory through public-private partnership.

- f) Allocated funds to manage agricultural and animal husbandry graduates at local levels, providing technical services and support to farmers.
- g) Encourage knowledge transfer from leading farmers and recognize their contributions through the Guru Kisan program and Best Farmer Award.
- h) Allocated funds for youth start-up grants and target young manpower for entrepreneurship in agriculture and livestock businesses worth NPR 1.2 Billion.
- i) Study the feasibility of cannabis cultivation for medicinal use.
- j) Draft the Federal Agriculture Act to clarify roles and responsibilities and enhance inter-level coordination for agricultural sector development.

Forest and Environment

- a) Promote protected areas and community forests as tourist destinations.
- b) Implement the Chure Conservation master plan through the President's Chure Conservation Program.
- c) Develop agricultural forests by cultivating herbs, fruits, and grasses. Plant three million saplings in collaboration with the provinces.
- d) Promote commercial cultivation of herbs by developing quality plant production and pocket areas in Karnali and Sudurpaschim provinces. Encourage export through processing and extraction of herb essence.
- e) Complete construction of Parsa Natural Zoo.
- f) Encourage the private sector to produce air pellets and briquettes from forest by-products like wood pulp, reducing coal consumption and promoting renewable energy.
- g) Expand air quality measurement centers and promote the use of paper or cloth bags instead of plastic. Conduct promotional programs for environmental protection.

Land Management and Co-Operatives

- a) Implement land administration based on information technology. Introduce an online service system for land surveying, reform, and registry offices. Enable electronic services for trace maps, blind spots, and stoppages.
- b) Integrate land surveyor's office and property office for efficient one-door service. Continue using lidar technology for surveying. Amend land administration law for local-level access to basic services.

- c) Complete identification, data collection, and mapping of landless Dalits, squatters, and unorganized residents. Distribute land ownership certificates to 25,000 landless people through the Land Commission.
- d) Survey and register exempted village block land and Swabashi land of Benissa. Complete land survey work in the village block area.
- e) Classify land for cultivation and other purposes scientifically. Assist local levels in formulating and implementing transparent land use plans.
- f) Release withheld land parcels to expand the real estate sector.
- g) Implement a scientific evaluation system for realistic and transparent real estate prices based on geographic information system in metropolitan and sub-metropolitan municipalities.
- h) Prepare an integrated record for the protection and management of government, public, community, and guthi lands nationwide. Protect public land through coordination between local levels and administrations.
- i) Distribute state facility identity cards and use them as a basis for government-provided facilities. Continue the Vishweshwar program for the poor.
- j) Encourage cooperative sector savings to invest in enterprise development and job creation. Support cooperative organizations in production, storage, and marketing of domestic and small industries.
- k) Improve service delivery in specific geographical areas of savings and credit cooperatives. Establish a specialized regulatory body for effective regulation and supervision. Ensure transparency and good governance in the cooperative sector.

Industrial Development

- a) Complete and operate Simra Special Economic Zone. Operate Bhairahawa Special Economic Zone at full capacity. Complete infrastructure construction in Panchkhaal Special Economic Zone.
- b) Review land rates in special economic zones to attract private sector industries. Allow industries exporting at least 30% of their products to operate in special economic zones. Provide tax incentives for export-oriented industries.
- c) Develop Bara Parsa Industrial Corridor. Accelerate construction of industrial villages in various local levels. Hand over completed industrial villages to the local level.
- d) Provide concessional loans for technology improvement and infrastructure construction in traditional industries. Document traditional skills and provide training.

- e) Promote micro, domestic, and small industries based on local raw materials. Provide subsidies and market promotion programs for industries like silk, hand-made paper, and handicrafts.
- f) Use local cement for road construction.
- g) Continue workplace-based employment training program. Industrialists can train workers and provide employment for a minimum of eighteen month to trainees. 3 months' salary of such trainees to be borne by government.
- h) Start excavation work in Dhowadi iron ore mine after completing surveys and environmental feasibility studies.
- i) Promote mining industry by exploring and mining petroleum products, iron, granite slabstone, ceramics, limestone, and dolomite in various regions.
- j) Conduct technology support, awareness, and training programs for the fourth-generation industrialization concept.
- k) Formulate a law on intellectual property to protect and develop industrial intellectual property, including technical know-how and franchise formulas.

Export Promotion and Facilitation of Trade

- a) Promote exports by increasing competitiveness and developing business infrastructure. Enhance international trade mechanisms.
- b) Complete construction of integrated check posts and dry ports. Construct godown houses and parking lots.
- c) Identify new export destinations and formulate a strategy. Encourage private sector production of exportable goods and services.
- d) Conduct programs to increase agricultural product exports. Allocated funds for establishing a laboratory for testing export agricultural products.
- e) Facilitate export of mineral water and processed water from the Himalayan region under brand "Water from the Himalaya".
- f) Establish standards for stone and gravel extraction to minimize environmental impact.
- g) Continue cash subsidies for export of various goods.
- h) Prepare for trade challenges after Nepal's upgrade to a developing country. Negotiate bilateral concessions with other countries.
- i) Regulate trade through e-commerce and promote marketing of products through electronic platforms.
- j) Prepare and implement quality standards for imports related to health and safety.

- k) Maintain reserves of food security at the national and SAARC levels.
- l) Increase petroleum product storage capacity. Complete construction of fuel storage houses.
- m) Continue transportation subsidies for regular supply of food and salt in remote areas.
- n) Start construction of modern warehouses in each province. Allocated budget for maintenance of existing warehouses.

Labour and Employment

- a) The Prime Minister's Employment Program will be restructured. The program framework will be amended with the objective of creating productive employment and improving labor market outcomes. In labor-intensive work implemented at the local level, the unemployed listed under this program will be
- b) A policy will be taken to produce skilled manpower according to the demand of the labor market. The National Vocational Skills Development Foundation will be formed by restructuring and integrating the existing training providers. In coordination and cooperation with the private sector, vocational trainings will be provided through local governments.
- c) labor approval and renewal services to be obtained through employment service centers at the local level.
- d) "Future life at home" With the slogan, a program will be conducted to develop entrepreneurship and engage people who have returned from foreign employment. Skill development training and professional counseling services will be conducted through the local level to develop people who are
- e) Citizens stranded abroad due to foreign employment will be promptly rescued. Arrangements will be made to provide relief, compensation, scholarships and other welfare services to the families of workers injured or killed during foreign employment from the local level.
- f) The scope of contribution based social security will be expanded. In order to make the social security fund sustainable and profitable, arrangements will be made to invest the funds in productive and infrastructure sectors Funds will be used for workers' health treatment, children's education

Culture, Tourism and Civil Aviation

- a) Promote tourism, develop infrastructure, and protect cultural heritage.

- b) Intensively promote Nepal's natural, religious, historical, and cultural heritage at the international level. Celebrate the years 2023-2032 as the tourism decade. Improve the quality of tourist services in line with the Nepali culture of "Atithi Devo Bhava". Aim to attract one million foreign tourists to Nepal in 2023.
- c) Promote domestic tourism through the "Visit Nepal, Know Nepal" campaign. Emphasize local pilgrimages, cultural festivals, and tourist destinations. Encourage interprovincial air services expansion.
- d) Accelerate the construction of the Great Himalayan Trail and footpaths to promote adventure tourism and showcase the beauty of the Himalayan region. Connect historical and cultural aspects of Rolpa, Rukum, and Dolpa districts with tourism.
- e) Implement comprehensive master plans for the Pashupati area and continue the Lumbini Master Plan. Develop Hindu and Buddhist cultural circuits, including religious places like Janakpur, Pashupatinath, Swargadwari, Muktinath, and Lumbini.
- f) Develop Halesi Tuwachung, Mithila, and Badimalika areas as "open cultural museums." Establish a lively museum in Gorkha reflecting tribal culture and lifestyle.
- g) Continue exploration, excavation, and preservation of historical archaeological sites. Conduct the Himalayan Gumba Conservation Program to protect culturally important monasteries in the Himalayan region.
- h) Complete the reconstruction of 25 cultural heritages damaged by the earthquake. Continue the reconstruction of monasteries in various districts.
- i) Protect and promote heritage sites, forts, and places of historical and archaeological importance related to the unification of Nepal, including Sindhuligarhi.
- j) Encourage the private sector to develop adventure tourism and film tourism. Develop hill stations in Koshi, Lumbini, and Sudurpaschim provinces. Promote hiking and trekking tourism in Kathmandu Valley and other areas.
- k) Construct tourist rest areas, green parks, wildlife viewing platforms, and maintain tourist routes. Promote Parya tourism and Magar culture in Parbat, Myagdi, and Baglung.
- l) Encourage private sector investment in tourism potential areas. Implement a one-door system for permits in trekking and mountain climbing.
- m) Upgrade regional airports in Biratnagar, Bharatpur, Nepalganj, and Dhangadhi. Upgrade other airports in Rukum, Dang, Udaipur, and Jumla. Improve air transport accessibility, infrastructure, and services.
- n) Restructure the Nepal Civil Aviation Authority into regulatory and service provider bodies. Strengthen regulatory role and improve infrastructure and service quality.

- o) Allocated a budget for the pre-preparation work of the Nijgadh International Airport project. Start construction after determining the investment modality.
- p) Restructure Nepal Airlines Corporation and initiate air service agreements with potential countries. Expand air connectivity.

Education, Science and Technology

- a) Mapping and redistribution of early childhood development centers to improve access to basic education.
- b) Expansion of the "Sustainable" program to bring more children into schools and provide agricultural practical learning. Residential scholarships for students from remote and
- c) Continue the midday meal program in community schools, providing nutritious food from local and regional agricultural produce.
- d) Continuation of the free sanitary pad distribution program for school girls.
- e) Integration of traditional education systems like Gurukul, Madrasa, and Gumba into the formal education system. Provision of sign language and Braille textbooks.
- f) Encouragement to conduct open competition for the selection of school principals.
- g) Free textbooks provided to all students of public schools before the start of the academic session. Provision of electronic copies of curriculum and textbooks.
- h) Teaching permit examination can be contested by anyone with minimum educational qualification.
- i) Encouragement to merge schools based on criteria such as the number of students and geographical location.
- j) Feasibility studies for establishing model residential community schools in different regions.
- k) Completion of post-earthquake reconstruction of school buildings and budget allocation for the reconstruction of Trichandra College and other damaged campuses.
- l) Compulsory service requirements for scholarship recipients in community based educational institutions or local levels.
- m) Testing and certification of skills of individuals based on self-declaration. Implementation of a technical instructor permit system.
- n) Restructuring of the University Grants Commission for higher education regulation, quality assurance, and recognition of educational qualifications.

- o) Establishment and operation of Madan Bhandari University of Science and Technology and Yogamaya Ayurvedic University. Progress in drafting a law related to Nepal University.
- p) Formulation of the Federal Education Act to organize various levels of education and establish a national qualification framework.
- q) Establishment of a regulatory agency for the safe use and management of radioactive materials. Legal arrangements for the safe use and regulation of chemical substances.

Health and Population

- a) Conduct programs to prevent and control diseases such as dengue, malaria, kala-azar, and elephantiasis, and allocated funds for their prevention.
- b) Expand Shukraraj Tropical and Communicable Disease Hospital and complete construction of provincial communicable disease hospitals in Pokhara, Surkhet, Doti, and Bharatpur.
- c) Allocated funds for the "Tuberculosis Free Nepal Campaign" to identify patients and provide free medicine.
- d) Allocated funds to provide free basic health services and medicines, including vaccinations, from health centers across the country, with priority given to domestically produced medicines.
- e) Conduct special programs for the protection of mothers and newborns, particularly in areas with high maternal and newborn mortality rates.
- f) Continue monthly allowance of NPR 5,000 for treatment of citizens with cancer, paralysis, kidney transplant or undergoing dialysis process
- g) Continue subsidy for the treatment of various diseases, including heart disease, kidney disease, cancer, and sickle cell anemia. Provide kidney transplant services in federal hospitals.
- h) Expand free early detection and treatment of cervical and breast cancer, vaccination programs, and infertility treatment services in federal hospitals.
- i) Improve geriatric wards and screen for dementia and Alzheimer's disease in the elderly.
- j) Improve maternity and gynecology hospitals, cancer hospitals, respiratory treatment centers, and other specialized health institutions.
- k) Upgrade and develop the burn unit at Bir Hospital and establish it as a fully equipped burn center.

- l) Upgrade civil hospitals to super-specialty hospitals and expand services at the provincial level.
- m) Operate Geta Medical College as Shaheed Dashrath Chand Institute of Health Sciences and develop Geta Hospital.
- n) Develop Rapti Health Science Academy and establish a satellite hospital under the Karnali Institute of Health Sciences.
- o) Expand the capacity of psychiatric hospitals and provide mental health services in federal hospitals.
- p) Develop the National Trauma Center and establish primary trauma care centers in various locations.
- q) Upgrade public health laboratories and allocated funds for construction and equipment.
- r) Encourage doctors and health workers to serve in multiple health institutions, promote alternative treatment methods, and complete the National Ayurveda Panchakarma Yoga Service Center.
- s) Encourage a healthy lifestyle through physical exercise, yoga, and balanced diets.
- t) Formulate an Integrated Health Science Institute Act and develop federal hospitals as teaching hospitals with specialized facilities.
- u) Require specialist doctors studying MD/MS on government scholarships to serve in government hospitals outside the Kathmandu Valley. Support students

Water Supply and Sanitation

- a) Extend access to basic drinking water services to all citizens and expand quality drinking water services through water supply projects.
- b) Promote water and sanitation programs to benefit 98% of the population with basic water supply services, 30% with high and medium water supply services, and 4.5% with sewage system facilities.
- c) Upgrade the temporary headworks of the Melamchi project and ensure water supply throughout the year. Start construction of the second phase of the project.
- d) Complete preparatory work, including feasibility studies, for sustainable water management in Kathmandu Valley from Cisneri, Tosne, and Mahadev rivers.
- e) Allocated funds to complete climate-adapted drinking water projects in drought-prone areas and provide electricity tariff discounts for water supply projects in these areas.

- f) Start integrated water supply and sewage management projects in Dharan, Bharatpur, Surkhet, Nepalganj, Janakpur, Dhangadhi, Lumbini, and other cities.
- g) Complete ongoing urban water supply projects in different locations, including Panchkhal, Dadhikot, Jhumka, Kataria, Bhojpur Bazar, Kanchanrup, Saptakoshi, and Danchi.
- h) Allocated funds to complete the Sahalgani water supply project in Chainpur, Jutpani, Baglungbazar, Tankisinwari, and Mechinagar.
- i) Prepare and implement local-level sanitation master plans to improve sanitation across 100 more areas.
- j) Restructure the Kathmandu Valley Water Supply Management Board, Kathmandu Valley Water Supply Limited, and Project Implementation Directorate for effective management and regulation of water supply assets.

Youth and Sports

- a) Celebrate the financial year as the Youth Entrepreneurship Promotion Year and increase access to skills, capital, and technology for entrepreneurship development. Provide concessional loans through the Youth and Small Entrepreneur Self-Employment Fund and subsidized loans for self-employment.
- b) Develop Tribhuvan University Cricket Ground and construct cricket stadiums in various locations. Install floodlights in the stadiums for international-level cricket matches.
- c) Complete the construction of state stadiums and covered halls in Dhangadhi, Itahari, Pokhara, and Nepalgunj. Build high altitude training centers and adventure sports infrastructure through public-private partnerships. Promote sports tourism and encourage private sector participation in sports infrastructure and competition management.

Women, Children, and Senior Citizens

- a) Provide free emergency air rescue and technical assistance for underprivileged women.
- b) Improve services for victims of gender violence and construct a rehabilitation center for women victims.

Social Security

- c) Continue monthly allowances for senior citizens and social security programs for Dalits, single women, poor, marginalized groups, and communities.
- d) Provide support to families of martyrs, injured individuals, and descendants of martyrs
Improve the registration and management of social security programs through electronic systems.
- e) Continue monthly allowances for senior citizens, social security allowances, and programs in the fields of scholarships, healthcare, and insurance.
- f) Continue providing living allowances and scholarships to families and descendants of martyrs.
- g) Implement an electronic system for individual incident registration and link social security information to government accounting and fund systems for direct transfer of allowances

Transportation Infrastructure

- a) The expansion of the East-West Highway to four lanes will be accelerated. The Narayangadh-Butwal and Kamala-Kanchanpur sections will be completed in the next financial year. Several road sections will be upgraded, and signature bridges will be constructed on the Narayani and Tinau rivers.
- b) Construction and upgrade of various sections of the Madhyapahari Highway, Hulaki Highway and Madan Bhandari Highway. and other key roads.
- c) The construction of the Kathmandu-Tarai-Madhesh expressway will be expedited, aiming to complete it by 2083. Contracts for the remaining sections will be awarded in the next financial year.
- d) The road network will be expanded to connect Simikot, the headquarter of Humla district, to the national road network. The construction of the Khulalu-Salisalla and Hilsa-Simikot sections under the Karnali Corridor will be undertaken, along with the restoration and upgrade of the Karnali Highway.
- e) Completion of 150 bridges under highways and strategic roads .
- f) Construction of flyovers and underpasses on national highways, including Gwarko flyover and upcoming projects at Koteshwor, Satdobato, and Ekantakuna to be processed.

- g) Completion of feasibility study for the Tokha Chhare tunnel route and allocation of funds for further project development, including the Siddha Baba Tunnel.
- h) Budget allocated for periodic maintenance and upgrading of approximately 350 km of roads and regular maintenance of 7,800 km of highways.
- i) Preparation of detailed study reports for Birgunj-Kathmandu and Rasuwagadhi-Kathmandu railways.
- j) Modification of classification and standards for national highways, provincial highways, strategic roads, urban roads, local, and rural roads.

Housing and Urban Development

- a) B development for quality urban infrastructure services and facilities.
- b) Allocation of funds for infrastructure construction in new city projects, including the Veriganga valley master plan in Surkhet district.
- c) Allocation of funds for integrated urban infrastructure in Pokhara, Janakpur, and Lumbini Corridor municipalities, including a bicycle lane in Sauraha.
- d) Budget allocated for building houses under the Janata Awas program and replacing thatch roofs with permanent materials under the Safe Citizen Housing Program.
- e) Completion of the Federal Parliament Building and allocation of funds for remaining works.
- f) Start of Nagmati Dam construction, and removal of unauthorized settlements on river banks.
- g) Completion of restoration work on ten archaeological heritages and completion of assembly hall construction at nine locations.
- h) Formulation and implementation of government building construction standards and revision of Nepal National Building Code.
- i) Preparation of a master plan for Kathmandu Valley's urban development and development of organized infrastructure in designated areas.
- j) The concept of utility corridor will be implemented in urban areas to solve the problem of unorganized infrastructure and eliminate duplication of expenditure.
- k) Support will be given to develop the infrastructure of the capital of Lumbini province, including the construction of integrated offices and urban infrastructure in Nawalpur and Rukum East.

- l) Legal arrangements will be made to restructure the Town Development Fund, ensuring ownership by the Union, State, and local levels, as well as financial institutions.

Rural Development

- a) Local level centers not connected by paved roads will be linked within the next three years through the cost-sharing program of union, state, and local levels.
- b) Construction of suspension bridges in remote areas will be promoted, with plans to complete 600 more bridges in the next financial year.
- c) The Tarai Madhes Samriddhi Program will continue to develop local infrastructure in Terai Madhes.

Irrigation

- a) Investment in irrigation will focus on multi-purpose projects and the development of surface, underground, and new technology irrigation systems to provide reliable irrigation throughout the year.
- b) Sikta , Rani Jamra Kularia, Veri-Babai, Mahakali, Sunkoshi-Marine Diversion will be under construction/maintenance as required.
- c) A new mechanical irrigation project will be initiated in Sarlahi and Rautahat districts to utilize underground water sources.
- d) Maintenance and rehabilitation of large irrigation systems, such as Sunsari Morang, Chandra Nahar, Bagmati, and Narayani, will be conducted.

Watershed Conservation and River Control

- a) Bilateral mechanisms between Nepal and India will be made more active to solve erosion and flooding problems in the border areas through diplomatic initiatives.
- b) Funds have been allocated to control the Narayani river and develop an attractive park on its bank land.

Energy

- a) Renewable energy technologies will be expanded to remote areas without national transmission lines to provide electricity access to 100% of the population and reduce reliance on imported fuel.
- b) Several hydropower (Rasuwagadhi, Sanjen, Madhya Bhotekoshi) and solar projects will be completed, adding around 900 MW of electricity to the national transmission system.
- c) Strategic hydropower projects like West Seti Hydropower Project and Lower Arun will be constructed after signing the project development agreement.
- d) Construction work will be carried out on the Budhigandaki hydropower project and Dudhkoshi reservoir to meet electricity demand and promote hydroelectricity export.
- e) Construction of various hydropower projects, such as Upper Arun, Chainpur Seti, Jagdulla, Tamakoshi Panchau, Simbua Khola, and Ghunsa Khola, will be initiated.
- f) Construction of various transmission lines, including the Karnali Corridor and Butwal-Lamhi-Dodhara lines, will be accelerated.
- g) Restructuring work of Nepal Electricity Authority will be continued, and legal arrangements will be made for its financial mobilization. The Hydroelectricity Investment and Development Company will also be restructured.

Information Technology and Communication

- a) Broadband internet service will be provided through high-capacity optical fiber, and 4G service will be expanded for high-speed internet access.
- b) The Digital Nepal Framework will be implemented, focusing on digital literacy and expanding the use and access of citizen apps. An information technology knowledge park will be established.
- c) Policies will be formulated for electronic data security and the construction of data centers and internet exchange centers. Cybersecurity measures will be implemented, and social networks and digital media will be regulated.
- d) The postal service will be restructured, implementing one local level one post office concept and retiring additional posts. Postal Savings Bank accounts will be transferred to government banks.
- e) Policy arrangements will be made for the co-use of telecommunication infrastructure, and high-capacity ducts will be used for underground telecommunication structures.

- f) Nepal aims to develop as a film tourism destination and will start the construction of film cities and indoor studios in Dolakha and Banepa through public-private partnerships.
- g) Continued public welfare advertisements will be provided to the media.

Climate Change and Disaster Management:

- a) Green economy principles will be integrated into project implementation to promote environmental protection and climate change adaptation and mitigation.
- b) National goals related to climate change will be achieved through coordination and cooperation at the union, state, and local levels.
- c) Weather forecasting and early warning systems will be improved, and three weather radar centers will be fully operational.
- d) Snow centers will be upgraded for scientific study and research on climate change effects and continuous monitoring of the snow system.
- e) The capacity of the Nepali Army and the Armed Police Force will be developed for immediate rescue during disasters.
- f) Multi-disaster early warning and risk reduction systems will be established.

Law and Justice

- a) Free legal aid will be enhanced to improve access to justice, and a bill on integrated legal aid policy will be introduced.
- b) The peace process will be completed through the Commission of Inquiry on Disappeared Persons and the Truth and Reconciliation Commission.
- c) A law on conflict of interest control will be formulated to promote good governance.

National Security

- a) The capacity of the Nepali Army will be enhanced to protect Nepal's sovereignty and national interests.
- b) Nepal aims to achieve self-reliance in the production of security and defense materials.
- c) Funds have been allocated for the construction of a mass casualty treatment center and educational infrastructure for the Nepali Army's Bunker to Barracks program.
- d) The National Service Team will continue developing dedicated and loyal youth manpower for national interest.

- e) Nepal's role in world peacekeeping will be increased, and the Birendra Shanti Karya Training Center will be developed as a center of excellence.

Peace and Security, Border Security

Security agencies will be made professional, efficient, modern, and well-equipped to maintain law and order.

- a) Police delegation adjustment work will be carried out at the union and state levels.
- b) Special security mechanisms will be mobilized to control social crimes, including violence against women in public places.
- c) Immigration services will be simplified and made effective through modern technology.
- d) Construction and maintenance of prison buildings will be undertaken, and old prison buildings will be renovated.

International Relations

- a) Partnership and cooperation with international organizations will be enhanced, and forums and lectures will be organized to enhance the country's reputation and policy formulation.
- b) Economic diplomacy will be promoted, and the number of diplomatic missions abroad will be reviewed.

Economic Plan and Statistics

- a) Statistics will be used for policy formulation and monitoring at all levels, and a national statistical information system will be developed.
- b) Results from the recent national census will be used for planning, and social benefits will be considered while formulating plans and programs.
- c) Data collection and analysis based on various characteristics will be promoted, including big data and open data practices.
- d) National development programs will be selected and implemented based on sustainable development goals.

Financial Sector Reforms

- a) Access to financial services will be extended to underserved areas through new technologies
- b) Access to financial services will be extended to urban areas, small market centers, and other underserved locations through technologies like online banking and mobile banking. Small farmers, entrepreneurs, and start-up businessmen will have easier access to finance. Financial literacy programs will be conducted.
- c) Laws related to the financial sector will be reformed and amended to modernize and strengthen the regulatory system. The second financial sector development strategy will be implemented.
- d) Remittance income through formal channels will be encouraged by providing incentives such as additional interest and linking remitters to the Social Security Fund.
- e) Remittance bonds will be issued to bring in remittances through formal channels and use the funds for infrastructure development.
- f) The interest subsidy program for subsidized loans will be restructured based on effectiveness studies.
- g) Microfinance institutions will be mobilized to provide financial access in remote and rural areas. Small Farmer Enterprise Development Programs will be conducted at all local levels.
- h) The insurance sector's regulation and supervision will be strengthened. Insurance services will be expanded, and the claim process will be simplified and expedited.
- i) The establishment of insurance company branches in rural areas will be encouraged. Insurance literacy will be enhanced in remote and rural areas.
- j) The capital market will be made transparent and competitive, ensuring investor interests. Institutional investors will be encouraged, and non-resident Nepalis will be allowed to invest in listed companies. Securities instruments will be expanded and diversified.
- k) The legal system related to securities will be amended, necessary infrastructure will be prepared, and the Commodities Exchange Market and SME Platform will be operationalized.
- l) The Citizen Pension Scheme will be conducted through the Citizen Investment Fund to include all self-employed Nepalis.
- m) Measures will be taken to control non-commercial and disorderly activities in the financial sector. Complaints related to pay-day loan victims will be addressed.

Money Laundering Prevention

- a) Actions will be taken to prevent financial investment in money laundering, terrorist activities, and weapons of mass destruction.
- b) Institutional strengthening will be done based on evaluations and suggestions, with amendments to policies and laws.
- c) A national strategy for prevention of money laundering will be created and implemented.

Public Institutions

- a) Implementation of an investment policy to make government investments in public institutions profitable, including divesting a certain percentage of shares in institutions like Nepal Telecom and Nepal Airline Corporation. Strategic partners will be brought in to improve the management of institutions with poor performance.
- b) Transparent process for appointing directors and chief executives in public institutions, ensuring qualified individuals are selected. Uniform standards will be established for service facilities provided to directors and employees.
- c) Adoption of a policy to operate public institutions in a company format, aiming for uniformity, professionalism, and result-oriented management. Feasibility studies and preparations for establishing a holding company will be conducted. Closure and liquidation of defunct institutions will be legally completed.
- d) Resolution of long-standing disputes in privatized institutions, with emphasis on enforcing agreed-upon terms during privatization. Directors and investors who fail to comply with the agreement will face action.

Fiscal Federalism

- a) Strengthening financial federalism through effective revenue distribution and financial transfers.
- b) Implementing transparent project development and selection systems at provincial and local levels.
- c) Conducting capacity development programs for public finance management.
- d) Arranging timely distribution of vehicle tax and real estate registration fee.
- e) Public Institute

- f) Formulating an investment policy for systematic and profitable share and loan investments by the government.
- g) Bringing strategic partners to improve management in underperforming public institutions.
- h) Transparent appointment processes for directors and chief executives, with standardized service facilities.
- i) Operating public institutions in company format, establishing a holding company, and liquidating closed institutions.

Development Assistance Operation

- a) Mobilizing development aid based on national interests, needs, and priorities.
- b) Including development aid in the national budget system and emphasizing grants and subsidized loans.
- c) Enhancing national capacity to reduce dependence on aid and deploying technical assistance efficiently.
- d) Developing a system for contracting development assistance after project preparations are completed.

Governance Reform

- a) Drafting the Federal Civil Service Act to strengthen the civil service and enhance service delivery.
- b) Strengthening administrative coordination and interrelationships between union, state, and local levels.
- c) Implementing recommendations from high-level administration reform commissions.
- d) Embodying the concept of paperless government and implementing integrated office management systems.
- e) Adopting a zero-tolerance policy for corruption and taking legal action against corruption and irregularities.
- f) Strengthening record-keeping and management of government assets.
- g) Monetizing unused and underutilized government assets to generate income and value.
- h) Expanding the scope of the savers' healthcare program to include spouses.

F. Revenue Policy

Objectives

- a) Increase investment in education, health, and basic services.
- b) Improve the standard of living and expand citizen access.
- c) Raise resources for infrastructure development. d. Ensure citizen welfare and socio-economic justice.

Revenue Policy Measures

- a) Shift revenue structure from income-based to direct taxes and internal production.
- b) Promote entrepreneurship, attract investments, and protect indigenous industries.
- c) Maintain tax policy stability to improve the industrial and commercial environment.
- d) Eliminate policy loopholes, discourage informal/illegal economic transactions, and expand the tax base.
- e) Implement technology-friendly, transparent, and taxpayer-friendly revenue systems.
- f) Strengthen fraud and leakage control mechanisms through legal reforms.

Tax System Improvement

- a) Establish a high-level committee to reform the existing tax system.
- b) Automate interoperability between institutional information systems for financial transactions.
- c) Amend value-added tax exemptions, abolish excise duty, and simplify tax returns.
- d) Set transaction amount limits, issue invoices through electronic systems, and strengthen the information system.

Industrial and Business Environment and Investment Promotion:

- a) Reform revenue policy to protect and promote indigenous industries.
- b) Extend the Nepal National Single Door System for trade facilitation.
- c) Review tax exemption facilities based on their impact.
- d) Establish effective coordination and communication for supply chain management at border crossings.
- e) Reduce customs rates on industrial raw materials.

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Policy and Legal Reforms:

- a) Formulate and implement transparent and predictable Customs Act and Customs Tariff Act.
- b) Improve the central invoice monitoring system for simplified accounting and reduced taxpayer costs.
- c) Refund value-added tax and excise duty on raw materials for goods exempted from taxes.
- d) Promote the export of Nepali brand alcohol and control environmental pollution.
- e) Review non-tax revenue rates, formulate an umbrella law, and ensure transparency and effectiveness.

Technology, Procedure, and Administrative Reforms:

- a) Enhance voluntary tax participation and compliance through clean and transparent revenue administration.
- b) Provide taxpayers with automatic tax payment certificates with QR codes.
- c) Simplify customs check pass system and increase the use of modern equipment.
- d) Strengthen customs laboratory capacity for testing prohibited and harmful items.
- e) Implement automatic tax refund for diplomatic missions through the green channel.
- f) Introduce electronic tax audit and mandatory submission of tax-related documents in relevant sector
- g) Expand tax base by associating permanent account numbers with national identity cards.
- h) Develop an automatic system for tax deductions during government payments.

Revenue Leakage Control

- a) Establish an agreement for automatic information exchange among tax administration systems to enhance leakage control.
- b) Create an online assessment database and integrate it into the assessment system for realistic customs assessments.
- c) Activate and coordinate agencies to control commercial fraud and fake invoices. Conduct joint patrols to control illegal exports and imports.
- d) Restructure customs clearance office to improve post-clearance testing.
- e) Gradually relocate alcohol and tobacco industries to industrial corridors or areas.

- f) Control tax evasion through transfer pricing, profit transfer, and income fragmentation.

Discounts and Concessions

- a) Label imported goods with importer and market distributor information to control low-quality, fake, and illegally imported goods.
- b) Review and cancel discount rates to expand the tax base.
- c) Allow Nepali citizens returning from foreign employment to bring an additional mobile phone and provide customs fee exemption for a television for those working abroad for at least twelve consecutive months.
- d) Increase duty on imported goods to protect domestic production. Exempting import duty for goods sufficiently available in the country will require a discount on value added tax and excise duty.
- e) Impose only one percent customs duty on mills/machinery imported by micro, domestic, and small-scale industries.
- f) Provide registration opportunity for mobile phone users in Nepal who were unable to register in the mobile device management system after paying fixed tax.
- g) Increase income tax rate for individuals with an annual income over fifty lakh rupees.
- h) Offer a 50% tax discount on foreign currency income for services exports in the information technology sector.
- i) Waive fees, interest, and additional charges for non-residents selling electronic services if they file value added tax by the specified deadline.
- j) Implement political, legal, technical, and administrative reforms in the tax system to boost the overall economic sector and promote socio-economic justice.

Key Takeaways

The fiscal policy for FY 80/81 comes on the back of a broad slowdown in economic activities in the country which has transformed into a mini-recession already. This has primarily been the result of a quasi- contractionary monetary policy wherein owing to the rapidly deteriorating external sector metrics; the central bank had put forth policies to stem the decline in the country's foreign exchange reserves and other external sector indicators. However, this has been further exacerbated by the timid execution of the fiscal policy wherein lack of capital expenditure has been a major problem in why investable funds are always at a short fall in the country.

This has also meant that while the monetary policy measures have been successful in managing external sector indicators, a consistently high interest rate regime combined with lack of access to credit initially due to liquidity issues and currently due to a broader economic slowdown perpetuated partially by high rates and an inability of individuals and businesses to payoff current loans or source new ones have brought the nation's growth to a very dismal level. This is because owing to our high credit to GDP ratio, consumption and economic growth are not tied up to one's disposable income but rather by their ability to borrow and spend. It is this kink in the process that has stopped the wheels of economic activity within the country as being able to borrow money to avert a crisis has been the go to approach for fiscal management for businesses and individuals alike.

This has been so problematic that a more than 20% increase in remittance inflows and a 25% decrease in imports have only yielded around 11% growth in deposits which shows how far the economic slowdown has perpetuated. This poses serious questions as to a quick economic recovery as import numbers are sure to blow up once again as import restrictions have all but been lifted and an uptick in economic activity when it happens will tend to push import numbers higher as will the ever depreciating INR which is pegged vis-à-vis the NPR.

Similarly, when we look at the nations export numbers, it is clearly visible that we are relying mostly on the export of nominal value addition products (soyabean oil, and palm oil) which are being exported on the back of import control and trade dispute of neighboring countries. This has created stability issues in the trade balance of the country as evidenced by a more than 50% drop in their exports this fiscal year. However, being

able to export electricity in a substantial volume from this year onwards will add certain stability to the nation's export numbers..

Similarly, a continuation of the provision of cash allowance for export-oriented industries like cement, steel, footwear, processes water, IT services, and others is another positive move forward. However, the incentive amount touted at a maximum of 8% still does not seem enough for Nepali products (mainly cement and steel) to compete with their Indian counterparts which have much better productions of scale and have a much cheaper cost of transportation(trains). A revision on the allowance numbers looking at specific sectoral needs would have been more fruitful in promoting exports more reliably. Nonetheless, the continuation of the policy shows that we are moving in the right direction in this regard.

While the tourism sector seems to be recovering as tourist numbers are returning towards parity, the initiation towards a tourism decade is positive. However, much will depend on what policy measures are undertaken to improve tourist numbers, their overall stay lengths and per day spending.

Unlike tourism, the financial sector had managed to function relatively normally even during a broader economic slowdown caused by the COVID-19 pandemic owing to policy initiatives from the central bank to reduce the ballooning of their non-performing assets. However, once interest capitalization and other facilities which had helped BFIs manage nonperforming assets were gradually removed, coupled with the economic slowdown have led to an increase in non-performing assets of BFIs. This is because the slowdown has affected both consumption and investment leading to an inability among many customers to service their debts in time. However, the solution of the underlying issue would require timely government spending which has been a rarity in the country. Nonetheless, provisions for requiring preparatory work to be completed before allocation of budget, cancellation of project in case of not being able to start within a given timeframe and procedures to ensure swifter execution of government spending if implemented as stated would help ease the liquidity issues in the market to a certain extent.

Nonetheless, even as funds are being gradually available to BFIs, the issue of credit access still remains wherein credit growth has been dismal, this has meant that money is limited and expensive which has helped push the stock market to lower lows consistently. However, the growth in remittance numbers has been a welcome surprise though its

effect will only be felt completely once economic activity gets back on track. In this regard, continuation of policy of providing higher yield to deposits made from remittance accounts, allowing returnees works to bring in additional phones as remittance drivers and new policy of allowing TVs given they are associated with social security program are all incentive measures to bring informal remittance to formal channels which will add to the sources of money for the country.

Similarly, the policy to remove limitations on FDI investment in IT sector can also help prop up foreign investment at a time where numbers have fallen by greater than 90%. Other notable measures include a gradual move towards the sovereign rating of the country which will be helpful in bringing institutional investments to the country and a study in marijuana production for medical purposes which if feasible and implemented could add tremendous value to the nations agricultural sector. The move to divest government stake in various public enterprise and bring in strategic partners, and close non-performing institutions while trying to organize public institutions in a company format are all good measures to improve government's revenue numbers. Similarly, measures to reduce government expenses by cutting costs and reducing employee incentives though helpful do not address the core issue that plagues government finances in Nepal. A haphazard approach to social security has meant that social security obligations now rank as the number one source of expenses for the government and the reduction of age for old age benefits only add to the government's liabilities.

This is further compounded by the overreliance on import based taxes which are subject to market sentiment and economic conditions as can be seen in this year's context which makes the government's precarious position even more obvious. Thus, the need was for a fiscal policy that would help boost sources of revenue while not exacerbating the existing excess in liabilities. However, the budget instead focuses on a short term fix perhaps indicative of the political instability within the country and the lack of long term tenability of the person in charge of all this. So, while the budget might plug some holes with bandages and make it look like all is well but the underlying fundamental issues still prevail and unless something radical is done, the problem will continue to exacerbate long into the future.