

Nepal Budget FY 2078/79

A focus on the basics;
An eye on the future.



Himalayan Capital

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1. Macroeconomic Highlights

The onset of COVID-19 pandemic, and mitigation measures taken up by GoN have made a significant impact on Nepal's macroeconomic outlook which has already been plagued with the past few years with the same systematic deficiencies and behavior patterns. Contrary to popular belief remittance inflow has actually increased this year with migrant workers sending in more money to help their families in this time of Need (Remittance inflows are 16.51% higher than in the first nine months of last FY¹). Though, remittance inflows have increased its proportion relative to GDP has decreased (22.4% of GDP this FY against 22.8% last FY²) which still drives a consumption culture (National Consumption is 93.4% of GDP³) The export to import ratio while improving is still 11.7⁴ (compared to 12.5 the last fiscal) which shows that though there is still a tremendous imbalance in the national accounts it has been decreasing YoY. The GDP growth for the FY is expected to be 4% as opposed to 7% as targeted by the previous budget, however, the number may decrease mainly owing to the prolonged impact of COVID-19 pandemic.

Similarly, Inflation Stood at 3.1% against a target of 7%. The impact of COVID-19 pandemic on mobility leading to a decrease in import of petroleum products(-12.8%) which was supported by a rapid increased in refined soyabean oil exports (268.4%) which supplanted refined palm oil as the top export product. This increase in exports helped manage the Trade Deficit despite an increase in imports thus leading to a BOP Surplus of NPR 68 Billion.

Owing to higher remittance inflows and relatively controlled import growth, FX reserves grew by 23.99% to NPR 1.433 Trillion from NPR 1.15Trillion. These improvements along with growth in output of various sectors helped increase the per capita income of the country by 7.5% to USD 1,191. Overall, the impact of the COVID-19 pandemic has been lasting and, in all probability, will continue to have an impact on economic activity for a few years still. However, widespread availability of a vaccine is sure to reenergize the economy and push us on the road to economic recovery once a sufficient proportion of the populace is vaccinated and the need to enforce lockdowns to control the spread of the disease from time to time is eliminated.

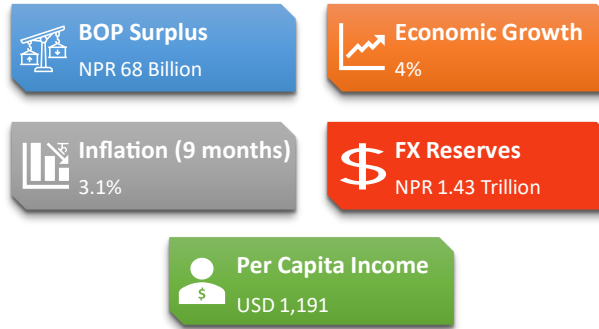
¹ Current Macroeconomic and Financial Situation of Nepal, Mid-April 2020/21, NRB

² Economic Survey 2077/78, MOF

³ Economic Survey 2077/78, MOF

⁴ Current Macroeconomic and Financial Situation of Nepal, Mid-April 2020/21, NRB

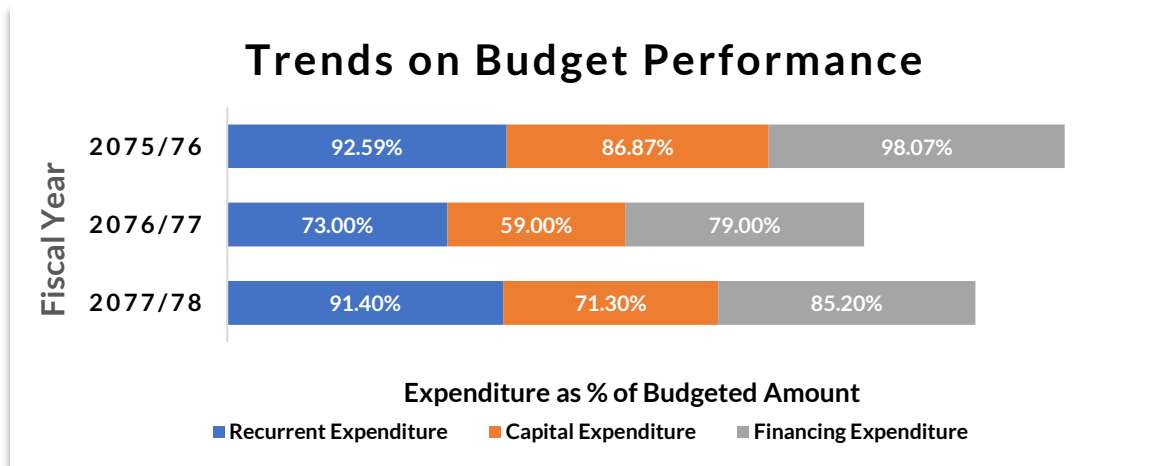
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2. Budget Performance (2076/77)

With regards to overall performance, the budget for FY 2078/79 continued the trend of ballooning recurrent expenditure vis-à-vis total expenditure observed since 2063 B.S. However, owing to the continued effect of the pandemic and an inefficient expenditure mechanism, only 85.9% of the budgeted expenditure (~NPR 1.24Trillion) is projected to be made in the FY.

Recurrent, Capital and Financing Expenditures are projected to be 91.4%, 71.3%, and 85.2% of their respective allocated budgets. Total Tax collection is expected to stand at ~NPR 959.68 Billion (94.8% of targeted amount). It can be clearly seen that budget performance has improved compared to the previous Fiscal Year despite the effects of the pandemic and inefficiencies on part of the government to spend as per planned.



Access to financial system has improved with almost 790 new branches of BFIs being established leading to coverage in 750 of the 753 Local Levels on the country. Insurance

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coverage has extended from 22% of the population to 23.4% of the population, this number jumps up to 26% if we include foreign employment and term life insurance . NPR 142 Billion worth of Refinancing has been approved for Businesses affected by COVID, and NPR 88.86 Billion worth of refinancing has been completed as of Falgun. Provision of compulsory PAN has further increased the scope of taxation as an additional 0.64 Million Taxpayers registered for a PAN in the last FY. Total FDI has gone down from NPR 15.61 billion to NPR 10.18 billion (- 34.8%) this FY.

3. Budget Overview

In continuation of the practice of presenting an Annual Budget for Nepal which Began In 2008 BS with a total Budget of NPR 52.53 Million Against a Revenue of NPR 30.62 Million was carried out for FY 2078/79 by honorable finance minister Mr. Bishnu Paudel on 15th Jestha, 2078 BS (29th May 2021 AD). The Budget for the FY is NPR 1.647 Trillion against Tax Revenue of NPR 1.025 Billion. As Tax Revenue is not sufficient to cover the total projected expenditure, Foreign Aid worth NPR 63.37 Billion, Foreign Loan of NPR 309.28 Billion and Internal Debt of NPR 250 Billion are to be sourced to fulfill all financial obligations under the budget. The budget intends to achieve an economic growth rate of 6.5% in the FY.

Headings	Amount (Billion NPR)	Percentage Composition
Expenditure		
Recurrent	1004.35	60.96%
Federal	678.61	41.19%
Provincial & Local	325.74	19.77%
Capital	435.23	26.42%
Federal	374.26	22.72%
Provincial & Local	60.97	3.70%
Financial Provisions	207.97	12.62%
Total	1,647.57	100%
Revenue/Receipts		
Tax Revenue	1024.9	94.18%

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Headings	Amount (Billion NPR)	Percentage Composition
Foreign Grants	63.37	5.82%
Total	1088.27	100%
Projected Budget Surplus (+)/Deficit (-)	-559.28	
Projected Deficit Financing		
Foreign Loans	309.28	57.10%
Internal Borrowing	250	42.90%
Total	559.28	100%

It can be clearly observed that since the Tax Revenue is only able to cover around 62.21% of the expenditure need for the budget, there is a deficit of around 37.79% equating to NPR 559.3 Billion, which is expected to be covered through Foreign Grants worth NPR 63.37 Billion (3.85%), Foreign loans worth NPR 309.28 Billion (18.77%) and Internal Borrowing of NPR 250 Billion (15.17%). The planned increase in foreign and internal borrowing is similar to last FY as the sources crunch for the budget in the current FY due to the pandemic continues.

A. Objectives:

- i. Safeguarding the life of citizens from COVID-19 pandemic.
- ii. Revitalize the economy by promoting economic activity and expediting development works.
- iii. Improve the public welfare aspect of the state, provide social security and protection, and achieve prosperity through social justice.
- iv. Develop an uplifting economy by utilizing resources available in the public, private and cooperative sectors.

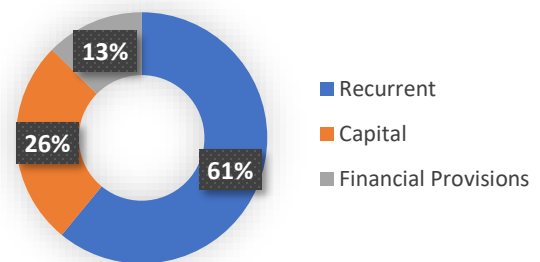
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B. Priorities:

- i. Effective mobilization of states resources for the prevention, mitigation, and treatment of COVID-19 through expansion of scope for testing, better availability of treatment facility, adequate supply of medical instruments and material, availability of vaccine at zero cost to citizens, establishment, and upgradation of medical infrastructure and effective utilization of medical personnel.
- ii. Expansion in economic activity by providing relief to families affected by COVID-19, and facilitating the recovery of private sector through encouragement, concessions, and other required measures.
- iii. Job security for workers entering the workforce, and workers who have lost their jobs,
- iv. Social Security and Protection for all Nepali citizens based on their lifecycles.
- v. Assurance of food security and improvement in agricultural production and productivity.
- vi. Investment in infrastructure for providing technical education and life skills.
- vii. Rapid Industrialization and establishment of strategic infrastructure that provide swift returns.
- viii. Sustainable Development through cooperation and coordination between local, provincial, and federal level.
- ix. Elimination of all types of discrimination and inequality leading to equitable development and equal access to the benefits of development.
- x. Accountable governance structure and system, assurance of safety and security, control of corruption, good governance, and effectiveness in service delivery.

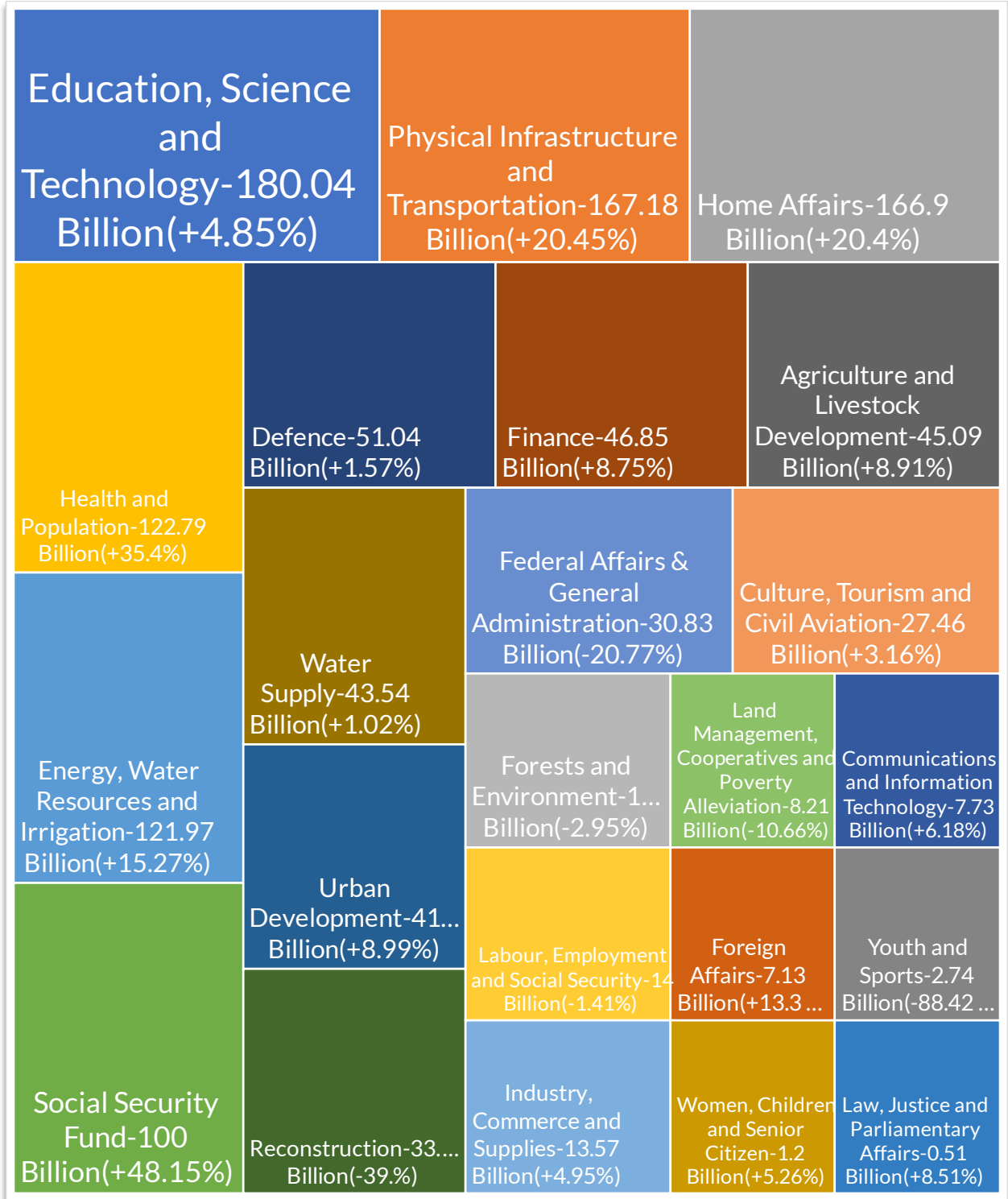
C. Expenditure Distribution

Recurrent Expenditure for the FY is budgeted at NPR 1004.35 Billion, Capital Expenditure is Budgeted at NPR 435.23 Billion and Financial Management Expenditure is budgeted at NPR 207.97 Billion.



Sectoral Distribution of the budget for various specific areas is as follows:

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As can be seen, the total tax revenue of the nation can barely support even its recurrent expenditure 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.

D. Implications

The major implications of the budget for various specific areas are as follows:

Health

Health sector has seen an increase in funding owing to the COVID-19 pandemic with focus on free vaccination, facilitating establishment of oxygen plants and testing and treatment of COVID-19.

- i. Free testing and treatment for COVID-19 in all government hospitals. Hospital with bed capacity greater than 100 have to mandatorily install their own oxygen plant.
- ii. Zero custom duties and VAT for import of equipment's used to construct oxygen plants, capital grants of 50% for community and private hospital establishing an oxygen plant and 50% discount on energy consumed by oxygen plants until the end of pandemic.
- iii. Provision to contractually appoint retired and interning medical personnel in hospitals for 1 year with salary and 50% risk allowance to prevent manpower insufficiency.
- iv. Provision of NPR 26.75 Billion to provide COVID-19 vaccination free of cost to all Nepalis.
- v. Establish state of the art 300 Bed infectious disease hospital in Kathmandu Valley and 50 Bed capacity infectious disease hospitals in all provinces (same provision as last years budget)
- vi. Establish maternity support unit in 20 highly rural districts and extension of IVF facility in Biratnagar, Birgunj, Butwal and Dhangadi for higher quality maternity services.
- vii. Aim to establish small scale hospital in 397 local levels with 5-15 beds within next 2 years (continuation of last years program) for wider access to health services.
- viii. Transportation Allowance for female medical volunteers increased by 10 to NPR 12 Thousand to improve motivation levels.
- ix. Budget for establishment of super specialty center of 1500 Bed capacity for critical diseases to eliminate need for going abroad for seeking treatment for major specific diseases within three years.

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- x. Establishment of Trauma Center in Dhalkebar, Bardaghat and Lamki and DPR for establishing such a center in Dhading.
- xi. Budget for extending service of Bir Hospital by establishing state of the art international hospital in duwakot, bhaktapur for providing greater quality medical services to Nepalis.
- xii. Establish national health laboratory as a center of excellence by building additional infrastructure and adding equipment such that all types of testing can be performed in Nepal.
- xiii. Ensure health Insurance for all at least 50% of families in the country. Ensure alternative financial sources for longevity of insurance programs. Health Insurance scheme has been allocated a Budget of NPR 7.5 Billion

General Relief Measures

- i. Waiving of charges on water consumption of domestic customers being supplied through government sources for up to 20 thousand liters monthly to ensure better access to drinking water.
- ii. Discount of 20% on price of pantry staples such as rice, flour, pulses, salt, edible oil and sugar as well as LPG gas being availed from Food Management and Trading Company or Salt Trading Company.
- iii. Discount for domestic and small electricity consumers on electricity tariff for the period of lockdown based on overall usage (100% for up to 20 units, 50% for up to 150 units, 30% for up to 250 units per month) intended to reduce consumers liabilities during lockdown. Discount on demand charge for productive industries, hotels, and cinema halls for the duration of lockdown period.
- iv. Auto renewal of registration for industries affected by COVID-19 such as tourism, public transport, hotels, cinema, handicrafts, media, advertisement, tailoring, beauty parlor and health club. Hotel and Tourism Sector to be treated as productive sector and to be provided facilities as such due to major effect of COVID-19 on their businesses.
- v. 25% grant on transportation costs of agricultural produce such as milk, vegetable, meat, and fish to the nearest available market. 50% grant for small farmers through the local level in the cost of paddy seeds to motivate farmers.
- vi. Loan of up to NPR 80 thousand for students from secondary level for buying laptop at 1% interest for a period of up to 2 years. Free sim for all students below age of sixteen years.
- vii. Payments for Social Security of employees of registered organizations for the months of Jestha and Asar to be covered by government easing cash flow restriction and allowing for payment of remuneration to employees.

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- viii. Upto 50% discount on rent for businesses renting government property for the duration of lockdown period.
- ix. Extension in period for charging of fine for public service contract and no additional costs for extension of bank guarantee for the same. Provision of allowing construction business to access retention money on public contract after furnishing bank guarantee for 50% of the retention money to help them manage their working capital.
- x. Extension of refinancing facility to provide subsidized loans at 5% to COVID-19 affected businesses introduced to reduce their overall costs and ensure their survival .
- xi. Extension of subsidized loan program at 5% for young, woman and agricultural entrepreneurs and small business owners as well as foreign returnee workers
- xii. Facility of 10 days fully paid tourism holiday for public sector and government employees to promote internal tourism and help revive tourism sector. Private Sector to be encouraged to provide similar facilities.
- xiii. Use of PPA modality in building, operation, and maintenance of major infrastructure such as roads, energy, railways, and airport. Capital grant of up to 30% of project cost for viability gap funding.
- xiv. Seed funding of up to NPR 2.5 Million for startups at 1% interest rate keeping their projects as collateral. Ease in government related transactions for startups and process to facilitate foreign investment in startups. Establishment of NPR 1 Billion challenge fund to foster startup culture in Nepal.
- xv. Free tourist Visa for foreigners up to 1 month for encouraging more tourists to visit Nepal to spur economic recovery.

Labor, Employment, and Social Security

Jobs and employment creation programs planned with their respective investment and aimed Job Creation for Individuals and Returnee migrant workers are as follows:

Program	Employment Creation	Investment (Billions NPR)
Prime Minister Employment Program	200,000	12
Skill Development Program	100,000	0.4
Apprenticeship Program	25,000	1
Total	325,000	13.4

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- i. Provision for employment for individuals registered in employment service centers in development works carried out by local levels (construction of roads, canals, buildings, and so on)
- ii. Provisions of apprenticeship for youth in productive and service sectors in collaboration with private sectors where government will cover minimum wages of the apprentice as a grant.
- iii. Subsidized loans for youth with educational from bachelor's level and above of up to NPR 2.5 Million at a maximum rate of 5% with their educational certificates as collateral for entrepreneurship purpose.
- iv. Employees of industries and organized sector to be provided free group accidental insurance by company. Compulsory group accident insurance for workers involved in public sector work.

Travel and Tourism

- i. DPR for Himalayan Trekking Trail from Taplejung to Darchula to promote tourism across the country will help boost tourist numbers once the trail is completed and can be helpful in increasing overall stay duration of tourists.
- ii. Provide government land in lease to the private sector to establish hotels, motels, resorts, and recreation centers in feasible locations of Chure Mahabharat Range to promote tourism in terai region as well.
- iii. Establish unified tourism information system with GPS tracking facilities for safety and rescue of tourists if needed to increase tourist confidence and improve incoming numbers.

Agriculture

- i. Agricultural zones for various products such as rubber to be brought into operation, and conditional grants will be provided to the local levels in which these 71 zones are situated to buy modern agricultural equipment such as combined harvester, power tiller and cultivator, among others. Interns to be delegated to support farmers in these areas to perform better.
- ii. Policy to provide barren government lands and unused government agricultural farms to the private sector on lease for commercial agriculture.
- iii. Up to 50% of grant for farmers while buying high quality seeds from authorized sellers to ensure better quality harvest.

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- iv. Process to establish a fertilizer factory that can cater to fertilizer needs of Nepal within three years to be initiated so as to reduce dependence on foreign fertilizers and make country more self dependent in terms of agriculture.
- v. Up to 50% of capital grant to private sector organizations in the establishment of organic pesticide factory and 35% grant for establishing milk processing and milk powdering industry.
- vi. Subsidized loans for promoting agricultural entrepreneurship and establishing overall value chain for agricultural produce.

Industries

- i. Made in Nepal and Make in Nepal initiatives to be undertaken to promote domestic production, marketing, and utilization and export promotion.
- ii. Prospect for and attract one or several of the worlds top 10 electric vehicle manufacturers or assembly companies to establish their factory in Nepal by offering land on zero lease and various tax discounts. This will be done to promote manufacturing of cheap electric vehicles in Nepal thus leading to their wider adoption and increase per person utilization of electricity as national production will increase substantially this year.
- iii. New industrial estates to be opened in locations such as mayurdhap in makwanpur, motipur in Rupandehi, damak in jhapa, Lamki in Kailali, and dauji in kanchanpur districts. Feasibility study of establishing such estates in muritya in sarlahi, chintutar in tanahun, laxmipur in dang and chaurase in surket district will be conducted.
- iv. Special Economic Zone to be established in panchkhal of kavrepalnchowk district and Feasibility study of establishing such zones in amarduwa in sunasari, haraiya in kailalai, and rajapur in bardiya district will be conducted.
- v. Industries established in special economic zone to be provided the opportunity to sell upto 40 % of their products in domestic market.
- vi. For industries migrating from Kathmandu to mayurdhap, industrial estate in makwanpur, provision of providing land for free in lease for 10 years, 1% custom duties on machinery and parts and no demand cost in electricity for five years to motivate the industries to shift out of Kathmandu valley.
- vii. Government to provide reimbursement on 75% of total cost of transmission line and access road if they are constructed by hydropower projects, star hotels, or cement or steel factories themselves. This will help improve industrialization as industries can set infrastructure up more efficiently.

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- viii. Dhaubadi Iron Mines to begin production this year and should reduce the country's dependence on imported iron.
- ix. Provision for use of domestic cement and iron rods for building roads on waterways, high incline and extreme weight bearing locations that require quick maintenance.

Financial Sector

- i. Provision to carry out government transactions such as tax collection, social security benefits distribution, as well as other payments, grants, and cash distribution to be conducted through banking system which will add more liquidity to the financial system and help move economic growth forward.
- ii. Provision for providing additional 1 % interest of Fixed Deposits on money received through remittance is aimed at improving deposit base of BFIs.
- iii. Commercial Blending will be used alongside other sources to fund the long-term financial needs of large infrastructure projects. This allows for the mobilization of commercial funds for development projects as risk reward ratio improves compared to direct financing.
- iv. Access of population to insurance services is expected to reach 33% this FY, the provision of deduction of up to NPR 5,000 worth of Home insurance for private homes for tax purposes is aimed at improving insurance coverage.
- v. Establishment of a commodities exchange will help grow the financial sector of Nepal by introduction of new types of instruments, but the implementation remains questionable as this proposition was also present in last years budget.
- vi. Increase in the capital of Deposit and Credit Guarantee Fund will provide greater stability and security whereas provision of decrease in deposit guarantee premium addresses one of the key suggestions of BFIs for the budget and helps in reducing their operating costs.
- vii. Digitization and cashless economy to be encouraged and the implementation of national payment gateway will facilitate the same.

Industrial Protection and Investment Promotion

- i. The custom duties on industrial raw materials have been made to be at least one level lower than finished products to protect local industries. Excise Duties on certain locally produced products have been removed.
- ii. Discount on Custom Duties for equipment, and parts used in tea, jute, movie, cashmere, hatchery, agriculture industries, and nurseries.

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- iii. Discount on custom duties of containers being imported by Shipping Companies registered in Nepal.
- iv. Discount of 50% of tax for commercial agriculture firms as well as 50% discount on custom duty of one vehicle to be used by such business.
- v. Institutional Tax rate to be revised to promote investment in productive industries.
- vi. Startup Businesses to have full tax holiday for a period of 5 years following their inception, and deduction in taxable income for private enterprises investing up to NPR 100 Thousand per startup for up to 5 startups as seed funding to encourage investment in startups from private sector.
- vii. Discount of 20% on tax amount for income generated by selling domestically produced raw materials and supportive raw materials to special industries, special industries will also have to pay only 10% tax on income generated through exports.
- viii. Removal of advance tax on debt servicing of BFIs for foreign loans. Similarly, removal of advance tax on debt servicing of loans between cooperative companies.
- ix. Industries using recycled, reused raw material that have affected the environment to create new products to be provided 50% discount on tax amount for first three years and then 25 % discount on the next two years of operation (total five years) to encourage recycling and reuse.
- x. Industries operating outside industrial village to be provided 50% discount on tax amount for first three years and then 25 % discount on the next five years of operation (total eight years) after production starts in case they shift their operations to inside the industrial village.

Tax Implications

- i. Discount on tax for small and medium enterprises based on transaction volume/revenue (90% discount on revenue up to NPR 2 Million, 75% discount on revenue between NPR 2 Million and NPR 5 Million, and 50% discount on revenue between NPR 5 Million and NPR 10 Million) intended to improve returns for small business owners affected during the pandemic.
- ii. Provision of only 1% tax on taxable income of industries highly affected by COVID-19 pandemic (Hotel, Travel, Trekking, Transportation and Aviation, Movie Industry, and Media Outlets) and the ability to transfer any loss borne in the period for up to a period of ten years.
- iii. Various incentives for paying remaining taxes.
- iv. Contributions made by any person to Government, province or state level Corona infection, prevention, control, and treatment Fund shall be deductible from taxable

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- income. Also, provisions for deduction of CSR funds used for helping build specialized hospital as prescribed by MOH or providing equipment and material for COVID-19 treatment is deductible from taxable income.
- v. Discount of 25% of tax amount payable on Pension Income is intended to support former government employees in maintaining a balanced lifestyle.
 - vi. VAT amount on diesel and LPG gas used for the purposes of business can be deducted as an expense on the business profit and loss statement.
 - vii. Increase in the volume of transactions requiring submission of projected income statement from NPR 2 Million to NPR 3 Million. Increase in transaction volume of businesses submitting tax based on transaction volume to NPR 10 Million from NPR 5 Million. No tax on the income of Mutual Funds.
 - viii. Electronic Billing to be mandated gradually for all taxpayers registered under VAT to increase scope of taxation.
 - ix. Provision for return of 10% of VAT on purchase of product/service through use of electronic means (Debit/Credit Card, QR Code, Scan To Pay) immediately to customer account to be implemented which was mentioned in previous years budget but has not been implemented as of date.

Impactful Provisions

- i. Increase in all types of social security benefits by 33%, obligation now 100 Billion Annually.
- ii. Add professors, teachers, and other civil servants to the contribution-based pension system. Also, expand the scope of social security fund by including self employed, non-organized sector workers, contract workers, and daily wage workers.
- iii. Ensure 33% female representation in the executive level of all organizations funded by government grants.
- iv. Establishment of Elderly Citizens Residence at Gothatar to accommodate 500 elderly citizens.
- v. Continuation of major national irrigation projects and prospecting for several new national river diversion irrigation projects such as naumure, tamor-chisyan, and kaligandaki-tinau to provide irrigation to agricultural land for greater productivity the year around.
- vi. Process to bring under the ownership of government all of the land that have been bought, takeover by Government of Nepal under Right of Way to facilitate quicker road development.

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- vii. Provision for export of mined minerals as well as rock, stones, and sand after environment impact assessment can help reduce the trade deficit as these materials are widely available in our hilly region. Transportation costs may prove to be a challenge.
- viii. Provision of establishing 50 Land Bank branches through coordination between federal and local level to provide in lease government, personal, and public land that is unused or barren for agricultural production and processing to increase agricultural productivity and production in the country.
- ix. Implementation of “mero kitta” system over the country that will help an individual view their overall land holding digitally. This is to be followed by mapping of all land in the country to GIS through use of LIDAR system for better future planning.
- x. Poverty Alleviation Fund has been cancelled and the community groups associated with the fund will be converted to cooperatives. Funds worth NPR 19 Billion previously under the control of the fund will be used as seed funds for the cooperatives which will be used for poverty alleviation. This is expected to provide better accountability and performance of the funds allocated.
- xi. Government policy of providing grants for 50% of insurance premium on agricultural produce has been extended to medicinal herbs to motivate farmers and ensure security of their livelihood.
- xii. Provision of banning production, import, and sales of plastic bags below 40 microns is expected to affect industries involved in their production. However, government will provide full capital grant for upgradation of equipment of such industries to move to more natural options such as cotton, jute, or paper.
- xiii. Provision on discount on renewal cost, and road maintenance fee for fossil fuel vehicles that have been electrified is intended to motivate people to switch to electric option while also not requiring the import of new electric vehicles.
- xiv. All commercial vehicle destined for Kathmandu will be sealed at arrival point in border and get tax clearance at container freight station being built in Chobhar to make transport swifter and hassle free.
- xv. Unified check posts on Nepal-India border to be accessible to railway for cheaper transportation.
- xvi. Increase in storage capacity of petroleum products to manage demand for upto three months.
- xvii. Promote involvement of private sector in production and distribution of salt in the Nepali market. This will bring an end to the monopoly being enjoyed by Salt Trading Corporation in the production and distribution of salt in Nepali market.

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- xviii. Provide broadband internet services to 60% of government schools within this year to reach 100% by next year to improve access to information and technology and create new avenues for learning for students.
- xix. Shift focus from ordinary education to technical education to develop vocation skills in students for better future prospects.
- xx. Operate Medical College in Geta of Sudurpaschim Province from this fiscal year, prepare DPR for Butwal medical College and begin construction work and prepare DPR for medical colleges in Bardibas and Surkhet to increase access to medical education and improve health facilities in the areas.
- xxi. Upgradation in capacity of melamchi drinking water project to start this year to add water from lake and yangri rivers.
- xxii. Design and construction of various stadium in morang, kathmandu, Rupandehi, Dang, Banke, Kanchanpur, and Jhapa districts are ongoing.
- xxiii. Provision of providing loans at subsidized rates to retired players for operating a business will encourage sports.
- xxiv. Continuation in Design, construction, and upgradation of various corridors, and national highways.
- xxv. Flyovers to be established in Gwarko, Satdobato and Ekantakuna portion of Kathmandu Ringroad to ease traffic congestion and improve urban mobility.
- xxvi. Implementation of embossed plates with radio frequency and e-ticketing to be done next fiscal year.
- xxvii. Transfer of fixed assets of erstwhile transportation committees to newly formed transportation companies leading to gradual removal of syndicate from market.
- xxviii. Grants for purchase and operation of larger electrical buses in middle range routes and Sajha Yatayat to introduce 100 electric buses in Kathmandu valley for improving electrification and increasing electricity consumption. This will be assisted by establishing 500 charging terminals across the country along with construction of terminal buildings for electric vehicles in conjunction with private sector.
- xxix. Construction of tunnel in tinkune jadibuti section to alleviate the pressure in Koteshwor junction to facilitate greater mobility in Kathmandu Valley.
- xxx. DPR of tokha, chahare gurjubhanjyang, betrwawati-syafrubesi, khurkot-chiyabari, and thankot-chitlang tunnels to be completed to start construction this year to reduce transportation time and costs. Similarly, construction work on siddhababa, dharan-leuti and lamabagar-lapche tunnels to start this year with feasibility for various locations being performed.
- xxxi. International consultant to be hired for feasibility study of metro rail and city cable car in Kathmandu valley.

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- xxxii. DPR of Raxual-Kathmandu and Kerung-Kathmandu-Pokhara railway to be completed to link the capital to both our neighbors through railway network.
- xxxiii. Total of 1.629 GW of electricity to be added to the national grid this year which will create high energy surplus in Nepal which is why policies favoring higher electricity use are being drafted.
- xxxiv. Net metering and net payment for private sector solar power units will help manage demand of electricity.
- xxxv. Provision of Nepal Electricity Authority (NEA) creating artificial lakes after building dams on rivers and charging certain amount for Private sector players to use the water of the lakes for electricity generation. This help reduce operations costs and building time for hydropower projects and will help reduce gap between start of construction and generation of electricity.
- xxxvi. Development of various municipalities of Nepal as megacities through a master plan to be designed by international consultant.
- xxxvii. Credit rating of NEA to mobilize additional sources for project development using commercial sources.
- xxxviii. Utility corridors to be developed for making underground structure for telephone, electricity and optical fiber lines in major cities of the country for better design and implementation of cities.
- xxxix. Town Development Fund to be restructured as Town Financing Corporation with a hike in paid up capital to work as an institution providing technical assistance and grants mobilization for infrastructure development.
 - xl. Development of a state-of-the-art central park in Kathmandu valley extending from Narayanhiti Museum to Dasrath Stadium.
 - xli. Outer Ring road to be built in Kathmandu valley through land pooling.
 - xl.ii. Pokhara International Airport and Gautam Buddha International Airport to be operational from this fiscal year.
 - xl.iii. Increase of 15% in rations provided to Nepal Police and Armed Police Force. Establishment of 120 border check outposts to improve border security, and control crime and smuggling of goods.
 - xl.ii. National Identity card to be provided to 7 Million Citizens in the Fiscal Year.
 - xl.ii. Provision of e-passport from next year upgrading from machine readable passport system currently in use will affect many travellers.
 - xl.ii. No change in tax slab for individuals and salary of all civil servants has increased by NPR 2,000.
 - xl.ii. Private sector will be proposed to operate various lower performing and non-performing industries under the ownership of GoN with additional investment from the

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- private sector considering the physical infrastructure and land holdings as the government's investment.
- xlvi. Organizational Restructuring for Nepal Airlines Corporation will be carried out to make the organization more competitive and a strategic partner will be sought out through public procurement process after increasing the capital of the organization.
- xlvii. Government will dilute its share in Nepal Telecom and issue the same to customers of the company's services up to Poush of 2078.
- xlviii. Strict monitoring of proper implementation of privatization agreement will be done and in case of any major default on stipulations, the assets of the company will be brought under the ownership of GoN.
- xlix. Provision that the compensation for any land to be acquired for government projects can at most be valued at 3 times the government's valuation of the land for tax purposes provides clarity to land acquisition and reduce government costs.

Change in Taxes

- i. Custom duties, excise duties and VAT on life saving equipment and material such as oxygen, oxygen concentrator, oxygen cylinder and life saving medicines have been removed for up to 2078 Poush End to ensure proper supply.
- ii. Removal of excise duty on electrical vehicles and significant reduction in custom duties to encourage use of electric vehicles.
- iii. Electrical appliances such as Refrigerator, Grinder, Rice Cooker, and Fan have their custom and excise duties removed or Custom duty of induction stoves has been lowered to just 1%.
- iv. Increase in excise duties for Alcoholic Beverages, Beer, Wine, Cigarettes, Tobacco Products, and Soft Drinks.
- v. Decrease in customs duty of imported baby milk by 50% to promote health of babies and better nutrition.

Change in Excise/Custom Duty for EVs				
Description	Previous Rate		Revised Rate	
	Excise	Customs	Excise	Customs
Three Wheelers	5%	30%	0%	10%
50 KW	30%	30%	0%	10%

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Change in Excise/Custom Duty for EVs				
Description	Previous Rate		Revised Rate	
	Excise	Customs	Excise	Customs
50 to 100 KW	40%	30%	0%	10%
100 to 150 KW	50%	30%	0%	15%
150 to 200 KW	60%	30%	0%	15%
200 to 300 KW	70%	30%	0%	30%
More than 300 KW	80%	30%	0%	40%

The sudden increase in customs and excise duties for electric vehicles in last years budget showed a significant departure from past policies of keeping tariffs and duties low to encourage proliferation of EVs in the country specially at a time where Electricity Production was finally going to exceed aggregate demand. A huge reversal on these hikes shows a realization in the part of the government that this was a bad policy initiative w.r.t promoting local production of EVs immediately.

However, looking at the current policy it looks as though the government is still pushing for manufacturing and assembly of EVs in Nepal as opposed to importing them . Thus, if such a manufacturing unit were to be established in Nepal, we could expect a hike on taxes for imported EV's once again .

Key Takeaways

With the prolonged impact of COVID-19 and policy measures put in place to control its spread, Nepal's Economy faces a huge challenge with national economic growth rate being lower than the year of the devastating Gorkha Earthquake. While remittance income seems to have rebounded and foreign exchange reserves strengthened significantly, an increasing import rate observed after easing of lockdown measures shows the same problems plaguing the country. Even looking closely at remittance numbers shows that the increase is attributable to the switch to formal channels by migrant workers for remittance due to mobility issues created by the pandemic (it could even be speculated that the total remittance coming in has not changed but the use of formal channels has). Long term issues with overreliance on remittance inflows still remain with the stoppage in migrant workers movement in the last 1.5 years sure to affect

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remittance inflows down the line. Export numbers have increased but rely mostly on nominal value addition products meant to utilize a difference in tax rates or situation of trade dispute (last year it was palm oil, this year it is soyabean oil) which does not particularly instill stability to overall export numbers in the long run but has made difference on national accounts in the short term, nonetheless. Opening of export market for construction aggregates may also help boost export numbers but will cause serious environmental issues if done without proper planning. This can lead to soil erosion, land erosion, landslides, and a myriad of other problems unless conducted in a very systematic manner at strategic locations.

The economy which was in the process of recovery following the gradual end of first phase of the pandemic is now once again affected by the second waves and is expected to show similar outlook as last time with a major impact on majority of private enterprise with mobility limited tremendously and overall consumption expected to decline on the back of stay-at-home measures. Hospitality and Travel related businesses have suffered tremendously during this period and will continue to do so until a vaccination effort is overseen to increase tourist confidence and international travel restrictions are lifted. Efforts to boost internal tourism through dedicated holidays should boost internal number once situation returns to normalcy.

The financial sector has persevered well, in part due to provisions of interest capitalization which have helped manage nonperforming assets as of now. Liquidity has been free flowing, and this combined with lack of other investment avenues has fueled an upwards trajectory in the stock markets. Policy measures dictating rebates on interest payments through monetary policy similar to last time will affect profitability of BFIs once more.

The new budget has thus continued in the same vein, making provisions for supporting small businesses and severely affected industries through tax breaks and other facilities. Policy measures such as the refinancing fund have been continued but if the current economic climate persists expect some other provisions introduced through monetary policy similar to last year wherein the budget had remained relatively silent but major relief measures were driven through monetary policy. The policy of good funding for covid-19 related measures has been continued with the focus this being on high vaccination coverage to enable greater economic mobility as evidenced in USA.

Policies such as loans against education certificate, and provisions for seed and other types of funding meant to empower entrepreneurship have been a mainstay of the budget for past few years but the implementation has proved quite challenging. The main target of this budget besides COVID-19 relief is social security with allowances being increased by 33% across all

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groups and additional measures for affiliation of private sector in the social security fund such as government coverage of SSF premiums for the last two months of the fiscal year. With the current action by SSF levying large obligations on various BFIs for non-affiliation to the SSF and provisions of including another set of civil servants in the scheme shows that the program is here to stay as the government has realized it simply cannot provide social protection to its citizens without their initial contribution under current and future resource constraints.

Start of commercial mining, empowerment of private sector through coverage of infrastructure costs such as transmission line and access roads, proper evaluation of privatization efforts and call to the private sector to oversee management of troubled industries all point towards more economic liberalization. Utilization of modern technology for greater mobility through the use of tunnels in highways and use of river diversion projects for improved irrigation show a defined move towards a more modern and efficient Nepal. While provisions such as loans for laptop purchase look attractive but remain challenging, the used of commercial blending of development projects intends to utilize commercial resources in development finances and use of capital grants for viability gap funding for PPA projects can also help spur large infrastructure development in the country.

While the completion of credit rating of Nepal has not come to fruition as of yet, the proposed rating of Nepal Electricity Authority shows a commitment towards better governance in order to bring in foreign funds for national development. And this combined with a PPA model for project development is key for rapid infrastructure development in the country. Another key factor is the perspective energy surplus of the country meaning we can now export electricity to earn foreign currency and reduce the trade deficit as Nepal has also been party to India's power trading mechanism. This is flanked by an increase in new popular projects intended to bolster an election campaign.

However, there seems to be an overestimation with regards to the sources for the budget; primarily the expected annual tax revenue which has been projected to grow by 20% from NPR 959.68 Billion to NPR 1.15 Trillion in the next FY seems extremely unrealistic and may cause resource problems. This can also be expected to be the case with the high volume of internal loans which may crowd out the private sector as liquidity becomes scarce. Most importantly, however, a substantial increase in social security expenditure combined with the increase in COVID-19 related expenditures will surely lead to resource imbalances in government books, hamstringing government expenditure in more productive areas. The need to cut down recurrent expenditure in various areas to avoid ballooning national debt has not been taken seriously in the last few year's budgets leading to an almost 100% increase in national debt per

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person in a very short span of time. This is a major concern and is sure to affect national finances for years to come if revenue growth does not occur at a good enough pace.

Overall, the budget is primarily just that, an election budget that promises many things for the constituents of the country. Though, it is also curious that a program such as Local Infrastructure Development Partnership Program which is a key political program has been discontinued. Nonetheless, the budget does address the basics, strengthens the social security system, and has made substantial provisions for fighting with COVID-19. A focus on mobility is observed in the budget with electrification and increase in electricity consumption being paramount in the government books this year as supply will finally exceed demand across the year. Most major projects are still extensions of running budgeted programs with exciting new additions in key electoral areas. Overall, the budget is functional and flamboyant enough to stand to make a difference.

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