

B U D G E T
— S Y N O P T I C —

FISCAL YEAR 2077/78

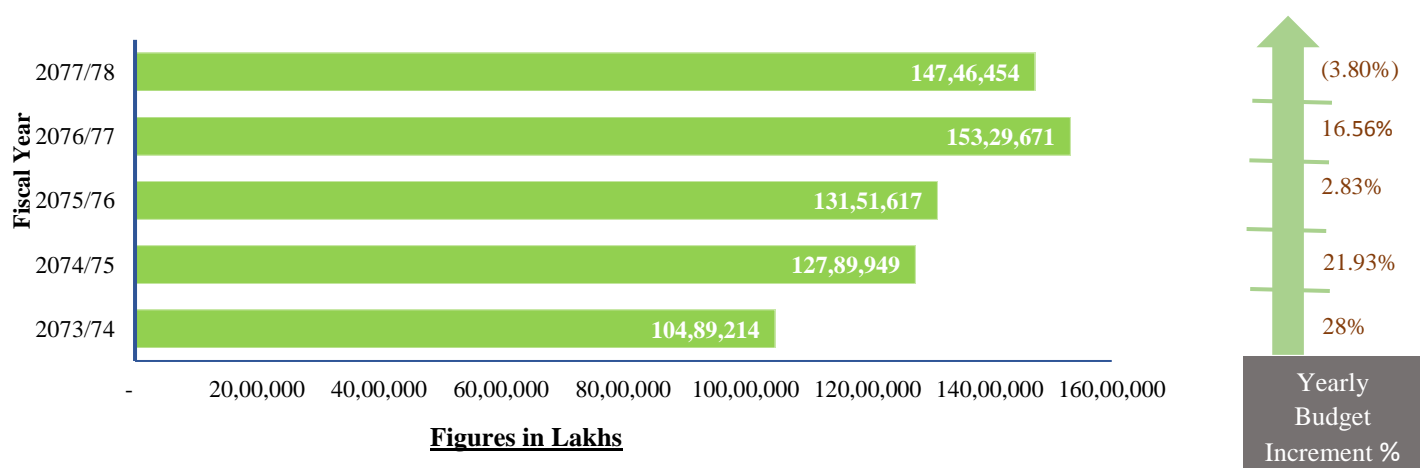
Nepal's BUDGET

&

CAPITAL MARKET

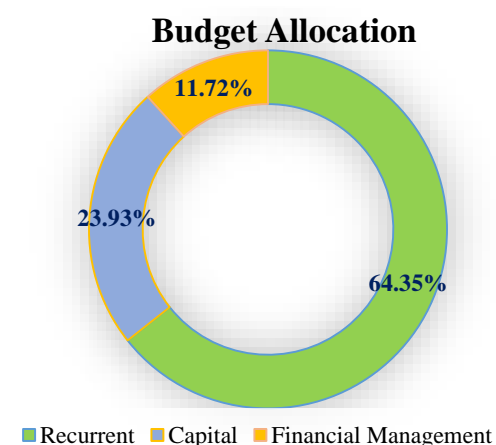


Five Year Comparative Fiscal Budget SIZE



Figures in Lakhs

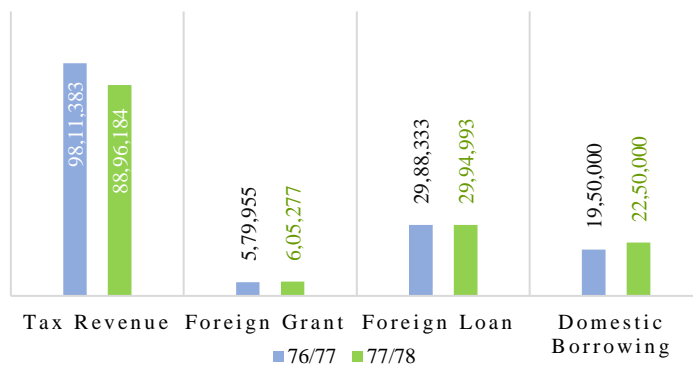
BUDGET SIZE		(In words: Rs. Fourteen Kharba Seventy-four Arba Sixty-four Crores and Fifty-four Lakhs)
Rs.147,46,454 lakhs		
Allocation	Capital Expenditure	Rs. 35,29,175 lakhs
	Re-current Expenditure	Rs. 94,89,406 lakhs
	Financial Management	Rs. 17,27,873 lakhs
Sources	Revenues (Taxes)	Rs. 88,96,184 lakhs
	Foreign Grants	Rs. 6,05,277 lakhs
	Foreign Loan	Rs. 29,94,993 lakhs
	Internal Loan	Rs. 22,50,000 lakhs



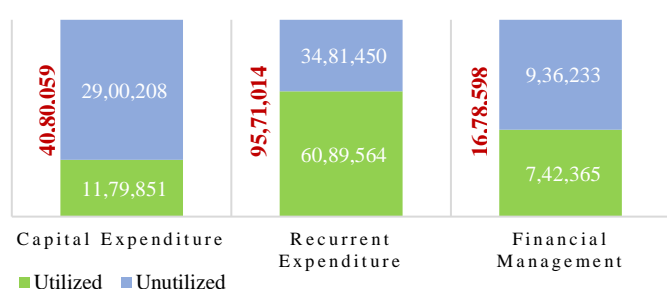
COMPARATIVE EXPENDITURE



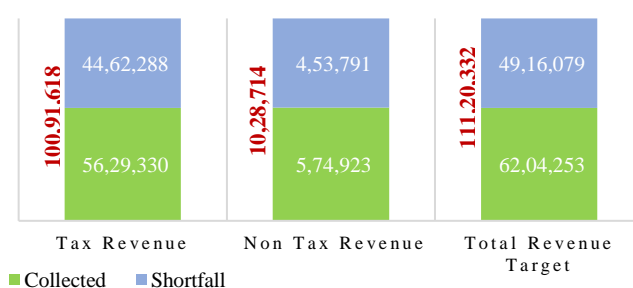
COMPARATIVE REVENUE SOURCES



Budget Vs Actual Expenditure For FY 76/77 As on 14 Jestha 2077



Target Vs Actual Revenues For FY 76/77 As on 14 Jestha 2077



Current Fiscal Year 2076/77 Key Status

- ❏ In Current FY, out of Total allocation for Govt. Expenditure, 70% i.e. Rs.10 kharba 73 arba 35 crores is expected to materialize. This includes 73.3% Recurrent Expenditure, 58.6% Capital Expenditure and 78.8% Financial Management Expenditure.
- ❏ Similarly, Revenue collection is expected to be 74.4% i.e. Rs.8 kharba 27 arba, Foreign Grants Rs.32 arba, Foreign Loan Rs.1 kharba 21 arba and Internal Loan Rs.1 kharba 93 arba.
- ❏ Economic Growth of 2.3% is projected to be achieved following the impact of COVID_19.
- ❏ In the 1st nine month of current fiscal year, Average Inflation rate is 6.5%, exceeding the 6% ceiling.
- ❏ GDP Per Capita has reached to USD 1,085. Per Capita Disposable Income is USD 1,388.
- ❏ Ratio of Total Investment to GDP is 50.2% and Total National Saving to GDP is 46%.
- ❏ Basic Drinking Water and Electricity facilities has reached to 90% population.
- ❏ Outstanding Government Debt till Chaitra 2076 is Rs.11 kharba 95 arba 60 crores. This includes Internal debt of Rs.4 kharba 81 arba 52 crores and External debt of Rs.7 kharba 14 arba 7 crores.
- ❏ In the 1st nine month of current FY, Export has increased by 12.9% and Import has decreased by 7.5%, resulting Rs.36 arba 61 crores surplus BOP. Similarly, Forex reserves has increased to Rs.11 kharba 56 arba.
- ❏ Remittance inflow in 1st 8 month of current FY has increased to Rs.5 kharba 92 arba 42 crores.
- ❏ Investment commitment of Rs.14 kharba 35 arba have been received through Investment Board and Foreign Direct Investment of Rs.1 kharba 55 arba have been approved. Further, Rs.29 arba 82 crores Investment through Department of Industry have been approved.
- ❏ Out of Rs.1 kharba 64 arba Foreign Aids Commitment in current FY, Rs.55 arba is a Budgetary Support.
- ❏ The number of Taxpayer availing PAN by Chaitra end 2076 has increased to 32,96,633 (+51.8%). Taxpayer registered in VAT and Excise Duty has reached to 2,56,245 (+19.9%) and 97,827 (+26.4%) respectively.
- ❏ Registration of Companies has reduced by 11.8% to 17,480 till Chaitra end.
- ❏ Tourists arrival through Airways till April 2020 has fallen by 47.6% to 1,77,085.

- ❏ Electricity consumption till Falgun 2076 has increased by 15.3% to 4,683.23 GWh.
- ❏ Number of Bank's Branches has reached to 9,640 till Falgun 2076 end.
- ❏ Insurance service has reached to 70 lakhs population from 56 lakhs.

Budget 2077/78 Objectives

- ❏ To protect the lives of public from any communicable diseases, virus or other crisis.
- ❏ Speed up the developmental activities with maximum utilization of available resources.
- ❏ Increase public welfare acts, satisfying the fundamental needs and rights of citizens.
- ❏ Lift the economy through development of Social, Economic and Physical Infrastructure.

Budget 2077/78 Priorities

- ❏ Enlarge the scale of Health services, health infrastructures and man-powers to facilitate and protect public lives from all Health risks including COVID_19.
- ❏ Revive the sectors most affected by COVID_19 such as Agriculture, Industry, Tourism, Construction etc.
- ❏ Ensure the job facilities, foods, shelters, social security etc. to citizens.
- ❏ Complete the Projects which provides immediate aids to economy and are possible in the coming years.
- ❏ Quality and practical education, expansion of Information technology, Drinking waters facilities etc.

Budget Address to COVID_19 and Improvement of Health System

- ❏ Rs.6 arba allocated for containment, treatments of virus and immediate availability of medical facilities.
- ❏ Free Health insurance upto Rs.5 lakhs for all medical staffs.
- ❏ Rs. 12 arba 46 crores allocated for development of Health Infrastructures.
- ❏ Establishment of Health Desk at every major Entry points.
- ❏ Rs.14 arba 27 crores allocated for establishment of 272 hospitals at Local levels.

- Rs.7 arba 50 crores allocated for Health Insurance with a target of 40% Insurance coverage at every Local level.
- Rs.4 arba 22 crores allocated for treatment of fatal disease, heart disease, epilepsy, leprosy, AIDS etc.
- Establishment of International standard “National Disease Diagnosis Centre”.
- Ambulance facility for the patients by making call to a same phone number throughout the country.
- Rs.90 arba 69 crores allocated to Ministry of Health and Population.

- 50% Grants on annual premium charge for Group Corona Insurance upto Rs.1 lakh. Govt. to bear Insurance liability of Health workers, volunteers etc.
- Govt. to bear funds to be deposited at SSF by employer & employee during lockdown periods. Employer can borrow such funds for payments to its employees under terms of repayment later on.
- Loan facility at 2% to encourage & promote Innovative Start-ups. Rs.50 crores Funds to be set up for such.
- Concession on license and renewal charges, credits for working capital, extension of contracts and bank guarantee for sectors like Construction, Transportation, Communication, Cinema etc.

Budget Address to Relief, Subsidy and Economic Recovery

- Continuity of Immediate relief programmes brought to tackle the impacts of COVID_19.
- Amount ≈ 1/4th of minimum wages for workers under Govt. employment schemes, other affected by COVID_19.
- Cottage and SMEs, Tourisms etc. affected by Corona to get loan at 5% for payments to its staffs and for business operation. For this, Separate Fund of Rs.50 arba to be set up.
- No charge for electricity consumption upto 10 units, 25% and 15% discount for monthly electricity consumption of 150 units and 250 units respectively.
- Full waiver of Demand charges during periods of lockdown for Factories affected by COVID_19 and 50% discount during low demand periods.
- Refinance facility upto Rs.1 kharba by NRB for enabling Agro & Cottage Industries, SMEs, Hotels, Tourism, and other industries affected by COVID_19 to get credits at 5%.
- Deduction on charges and taxes on Parking fees, Renewal of Licenses, Aviation fuels for NAC.

Budget Allocation to Federal, Provincial and Local Level

- As per Standard set by National Natural Resources and Finance Commission:
 - i. Provincial Level: Rs.55 arba 19 crores
 - ii. Local Level: Rs.90 arba 5 crores
- Conditional Grants:
 - i. Provincial Level: Rs.36 arba 35 crores
 - ii. Local Level: Rs.1 kharba 61 arba 8 crores
- Revenue Allocation based on factors like Population, Area size, HDI etc.
 - i. Province & Local: Rs.1 kharba 22 arba 14 crores
- Complementary Grants of Rs.9 arba 96 crores for operating the projects identified by Provincial and Local level.
- Special Grants of Rs.9 arba 97 crores for carrying Special nature of tasks by Provincial and Local Level.

COMPARATIVE BUDGET ALLOCATIONS (Fig. in Lakhs)

Sector	FY 2077/78	FY 2076/77	% Difference
General Public Service	49,43,392	45,90,532.00	7.69%
Defence	4,92,205	5,01,061.00	(-1.77%)
Public Order and Safety	5,62,853	5,61,188.00	0.30%
Economic Affairs	38,90,007	54,13,670.00	(28.14%)
Environmental Protection	1,16,646	2,67,897.00	(56.46%)
Housing and Community Amenities	8,18,607	7,87,545.00	3.94%
Health	11,50,620	7,84,044.00	46.75%
Recreation, Culture and Religion	72,345	72,316.00	0.04%
Education	17,21,922	16,37,559.00	5.15%
Social Protection	9,77,857	7,13,859.00	36.98%
Total	147,46,454	153,29,671	

Key Headings and Budget Allocation

S.N.	Allocation to Ministry of:	FY 2077/77
1.	✓ Health and Population	Rs.90.69 arba
2.	✓ Finance	Rs.43.08 arba
3.	✓ Home Affairs	Rs.1.38 kharba
4.	✓ Defence	Rs.50.28 arba
5.	✓ Industry, Commerce and Supplies	Rs.12.93 arba
6.	✓ Energy, Water Resources and Irrigation	Rs.1.05 kharba
7.	✓ Agriculture and Livestock Dev.	Rs.41.40 arba
8.	✓ Culture, Tourism and Civil Aviation	Rs.26.62 arba
9.	✓ Labours, Employment and Social Security	Rs.14.20 arba
10.	✓ Education, Science and Technology	Rs.1.71 kharba
11.	✓ Youth and Sports	Rs.2.36 arba
12.	✓ Women Children and Senior Citizen	Rs.1.14 arba
13.	✓ Drinking Water and Sanitation	Rs.43.10 arba
14.	✓ Urban Development	Rs.37.40 arba
15.	✓ Physical Infrastructure and Transport	Rs.1.38 khaba
16.	✓ Forests and Environments	Rs.14.56 arba
17.	✓ Land Management, Cooperatives and Poverty Alleviation	Rs.9.18 arba
18.	✓ Communication and Information Technology	Rs.7.28 arba
19.	✓ National Reconstruction Authority	Rs.55 arba
20.	Ministry Of Finance:	
	➤ Internal Debt Payment	Rs.72.35 arba
	➤ External Debt Payment (Multilateral)	Rs.24.74 arba
	➤ External Debt Payment (Bilateral)	Rs.3.05 arba
Allocation For:		
1.	✓ Melamchi Drinking Water Project	Rs.5.46 arba
2.	✓ Alternative Energy Programmes	Rs.4.13 arba
3.	✓ Rural Electrification	Rs.4 arba
4.	✓ Construction of International Airport	Rs.19.42 arba
5.	✓ Prime Minister's Employment Programmes (2 lakhs job creation)	Rs. 11.60 arba
6.	✓ Social Security Allowance	Rs. 67.50 arba
7.	✓ Irrigation and River control	Rs.27.96 arba
8.	✓ Tourism Infrastructure	Rs.1.26 arba

Miscellaneous Budget Highlights

- More than 3 lakhs Senior citizens (age \geq 70 years) and 4 lakhs poor families to be covered under Government Free Health Insurance programmes.
- Rs.3 arba 22 crores allocated for developing 250 Pocket Area of Agriculture and Animal Husbandry under the scheme One Productive Pocket Area on Each Local levels.
- Rs.11 arba allocated for Grants on Chemical fertilizers.
- Increment on Premium subsidies for Agro, Crops and Animal husbandry Insurance. Farmers can pay Premiums for Revenue Insurance after harvesting.
- Farmer Credit Card to be launched for easy access of Agro Loans.

- ₪ Rs.10 arba 25 crores allocated for Mahakali Irrigation Project which is to be developed as National Pride Project.
- ₪ 300 Land Banks to be established at Local level, targeting the youths (who have returned from abroad due to COVID_19) towards Agriculture. Rs.50 crores set aside to invest on shares of such Land Banks.
- ₪ To create more job opportunities to Nepali citizens, any Foreigner have to obtain Work Permission to work in Nepal.
- ₪ Rs.19 arba of Revolving Funds to be used as Seed Fund for converting more than 32,000 Community Organization at 64 districts into Cooperative system.
- ₪ Rs.3 arba 60 crores allocated to Small Farmer Development Microfinance Financial Institute Ltd. for financing loans and promoting agriculture and small business through 1000 Cooperatives.
- ₪ Saving and Credits Cooperatives Institutions will be encouraged for Merger & Acquisition and Cashless transaction through adoption of new technologies. To reduce the risk at Cooperative system, Cooperative Credit Information Centre will be established.
- ₪ Internal Tourism will be promoted by encouraging the Employees (Govt./ Institutions) for 'Desh Darshan'.
- ₪ Rs.2 arba 64 crores allocated for establishing additional 130 Industrial Village at Local levels and developing Industrial Sites at every Province along with required infrastructures.
- ₪ Warehouse with a capacity to store 310,000 metricton Food grains will be established at Federal and all Provincial level.
- ₪ Trade with Third Countries to be carried out using the 4 Sea Ports and 3 Land Ports facilitated by China under the Transit Facility.
- ₪ Expansion of Petroleum Pipeline, establishment of Petroleum warehouse and Gas Bottling Plant.
- ₪ Rs.6 arba allocated for President Educational Improvements Programmes.
- ₪ Melamchi Drinking Water Project to be completed within FY 2076/77 and Drinking waters to be distributed at Kathmandu Valley from beginning of FY 2077/78.
- ₪ 1 crores Nepalese data will be updated in Electronic system for Biometric Identification and Issue of National ID Card with Unique numbers to all Citizens in next 3 years.
- ₪ Rs.3 arba allocated for National Census 2078, Surveying Living Standard Index, Happiness Index, Industrial and Agricultural Counts, etc.

Taxation Provision

- ₪ Micro, cottage and small industries with a transaction (i) upto Rs.20 lakhs, (ii) Rs.20 to Rs.50 lakhs and (iii) Rs.50 lakhs to Rs.1 crores, as per Income Statement of FY 2076/77, to get Tax rebate of (i) 75% (ii) 50% and (iii) 25% respectively.
- ₪ 20% rebate on Taxation for Aviation, Transport, Hotel, Travel & Trek having annual transaction > Rs. 1 crore.
- ₪ No VAT levied on Micro Insurance.
- ₪ Increment in Custom charge on import of Gold, Petroleum *except Aviation fuel and LP Gas*.
- ₪ Quarterly filing of VAT Returns and Payment for Tourism, Shipping and Cinema Hall industries.
- ₪ Tax exemption periods increased by 2 years to 7 years for Micro Enterprises and by 3 years to 10 years for Micro Enterprise run by Women.
- ₪ 25% Tax discount for 5 years of operation for Special industries operating at Industrial Areas or Village.
- ₪ Full tax exemption for all Co-operatives of Rural Municipal. 5%, 7% and 10% tax rate for all Co-operatives carrying Taxable transactions at Municipalities, Sub-Metropolitan and Metropolitan cities respectively.
- ₪ Tax waived on Retirement payment if Funds at such Approved Retirement Funds are transferred to Social Security Fund by end of Chaitra 2077. Such Retirement Funds will be gradually closed.
- ₪ Small Taxpayers with annual transactions upto Rs.20 lakhs can file Income statements and tax payment through Mobile apps and other electronic mediums.
- ₪ No TDS on payments of Goods and Services made through electronic mediums.
- ₪ Tax deduction in current FY for contribution towards Government established Corona Relief Funds.
- ₪ No changes made in Personal Income Tax slabs.
- ₪ 1% SST for Couple contributing to SSF waived.
- ₪ No change in Corporate Income Tax with no Rebate for Institutions like BFI's, Insurance, Merchant Banks, Brokers etc. i.e. rate is 30%. For Hydropower tax rate is 20% after 20% rebate.

Budget 2077/78 Address to Financial Sectors

1. Encouragement to BFI's for M&A.
2. Payment system to be made more secured, modern and digitized.
3. Convenient Loans Facility from Banks at 5% interest. Subsidy upto 50% of Premium payment on Insurance of such loans will be provided.
4. Rs.13 arba 96 crores allocated for Grants on Interest, Loan and Insurance premiums.
5. Branchless, Mobile & Internet Banking Services will be facilitated at Remote areas to promote digital financial system.
6. BFI's will be encouraged for utilization of external capital.
7. Insurance reach to Agriculture and Micro Enterprises through Revolving Insurance Programmes.
8. Extension of due dates of Insurance policies till Lockdown periods for Industries and Transportation Means failing to operate due to COVID_19.
9. Electronic payments will be facilitated through operation of National Payment Gateway.
10. Initiation of Secondary Market for Debentures/Bonds.
11. Secondary Market Stock Transactions through NEPSE will be fully automated.
12. Operation of Stock Dealer
13. Necessary works for operation of Commodity Markets.
14. Structural reform and better equipped infrastructures of SEBON, NEPSE and CDS & Clearing Ltd.
15. Implementation of Immediate and long term solution for Investment protection, Capital formation and improving current business environment.
16. For fast economic recovery after easing of COVID_19, approaches like Foreign Capital Utilization, Technology handover and Protection of Intellectual Property will be encouraged.
17. To promote Institutional Investments and provide easy and quality services, Single Point Service Centre will be automated.
18. The process of Company registration, renewal or closure will be decentralized through Information Technologies.
19. Nepal National One Door System will be developed and operated to ease Foreign Trade.
20. Countries Credit Rating will be performed in 6 month of FY.
21. Foreign currency hedging, development of other Alternative vehicles for promoting Investments.
22. 1,300 MW of electricity to be added to National Grid from completion of Hydro Projects like Upper Tamakoshi, Rasuwagadhi, Upper Sanjen, Madya Bhotekoshi and other Small & Medium Projects.
23. Construction of Dudh Koshi Storage HEP to begin through joint investment of 4 International companies.
24. HEP such as Upper Arun, Kimathanka Arun, Phukot Karnali, Tamakoshi 5, Chainpur Seti, Jagadulla etc. to be carried out under Citizen's Hydropower Projects.
25. Rs.36 arba 2 crores allocated for construction of Transmission line and Substation.
26. Grants and promotion to be made for usage of Electronic utilities such as Induction stove, Electric vehicles etc.
27. Rs.9 arba 60 crores allocated for Intensive Urban Development Programmes.

Target Economic Growth for FY 2077/78	7.00%
Target Inflation Rate for FY 2077/78	≤ 7.00%

Conclusion and Remarks

The Budget for Fiscal Year 2077/78 presented at the midst of ongoing COVID_19 Pandemic and nationwide Lockdown was a much awaited session for many, *wondering how the Government plans to pull up the economy and their jolted businesses*. The incremental Budget size in the past contracted by 3.80%, *notable by contraction in Tax Revenue sources*. However, we reckoned the marginal increment on Budget size fuelled by External Debt for dear stimulus package, much needed at the time. Besides, the Budget deficit has increased to 39.67% from 36%.

On a good note, Budget remained focus to address the sector hard hit by COVID_19, *particularly Tourism, Hospitalities, Health system, SME's, Employments etc*. Budget on Health sector is increased by 46.75% followed by 36.98% on Social Protection. Climate risks *which we foresee the biggest threat in decades to come* seems overlooked with an allocation on Environmental Protection massively reduced by 56.46%.

The Budget carried slim hopes for Capital Market & Investor's waiting some catalysts for boosting the gloomy confidence. However, Budget disappointed by borrowing the earlier year speech like BFI's M&A, Automated Trading, National Payment Gateway, Debenture/Commodity Markets etc., *leaving Market Participants still in confusion with CGT, NRN's access route etc*. Talks on Stock Dealer, Credit Rating of Nepal, Digital revolution, Structural Reforms etc. are welcoming. The Budget did not spell any relief packages for Investor whose funds are trapped in Stock Market.

While the Secondary Market remains closed for an undefined periods owing to Lockdown, the impacts of COVID_19 on the economy and sectors covered by NEPSE are still puzzled. BFI's which covers approx. 65% of Market Cap. have already reported a down performance with depressed distributable profits. NPL is sure to rise with huge provision requirements. While deposit and lending rates could be lowered, NRB decision to increase Refinance Fund size to Rs.1 kharba from Rs.50 arba could aid to ease liquidity in Markets. Hotel is other where Investors could try shift away the allocation due to obvious reason. Besides, MFI's could also face credit risks. The promising sector is the Insurance (*Life/Non-Life*) as the COVID_19 again sparked the importance of Health and Life Insurance. The Industry having just 22% penetration is grossly untapped, inkling good addition to Portfolio. Hydropower, *in operation or on verge of operation/completion* could finally find Investor's interests *thanks to PPA with NEA and lessening interest charge*.

Empirical studies of past Budget concludes that the variances of Budget anticipation and the realities are materially significant. For instance, of current Budget FY 76/77, Revenue collection, Foreign Grants and Foreign Loan is revised down by 25.92%, 44.84% and 59.51% respectively. In FY 75/76, the actual shortfall noticed was 10.67%, 61.07% and 50.85% respectively. On the other hand, Total expenditure in current FY is projected to limit at 70%, *with 41.4%, 26.7% and 21.4% underutilization of Capital, Recurrent and Financial Management Expenditure respectively*. The budgetary status as on 14th Jestha presents more doubtfulness on materialization of such revised Revenue and Expenditure projection as the record states 57.72% and 52.26% respectively and the FY is soon to over. The Budget deficit is modelled to be filled with 15.38% increment of Domestic borrowings *i.e. Rs.2 kharba 22 arba, the materialization of same could bring liquidity challenge in the Banking industry*. We expect at most 75% utilization of budgeted amounts with improvement of Recurrent and Financial Management expenditures, helping to ease liquidity issue.

Lastly, we opine that the 7% Economic Growth along with 7% Inflation target is the big deal to achieve, *although not impossible, given the lower base of GDP due to 0-2% growth of current GDP forecast*. Impacts on Remittance industry, *which accounts +40% of Budget size*, +16% drops on Tourism sector, interruption on Supply chain etc. could put major challenge on the Target. Turning the optimistic picture, utilization of labour-intensive economy, revolution in agriculture, exports of hydro energy, digitization and effective implementation of Budgets could bring the economy on track. The Stock Market, *which is still undervalued since Market cap. to GDP ratio is < 45%*, signals hopes conditional to automated Markets, development of other financial instruments, operation of Stock dealer, Monetary Policy address/relief to Investor and finally the overall good of the Budget to Economy and solution to COVID_19, *since Stock Market mirrors the future state of Economy*.

Watch list: Monetary Policy for FY 2077/78 (By the end of current FY)

Disclaimer: For Information Purpose Only and Opinion reflects Author's Personal Understanding & Judgement.



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