

**B U D G E T**  
**— S Y N O P T I C —**

**FISCAL YEAR 2076/77**

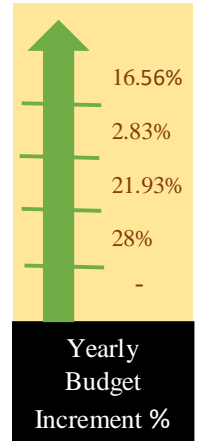
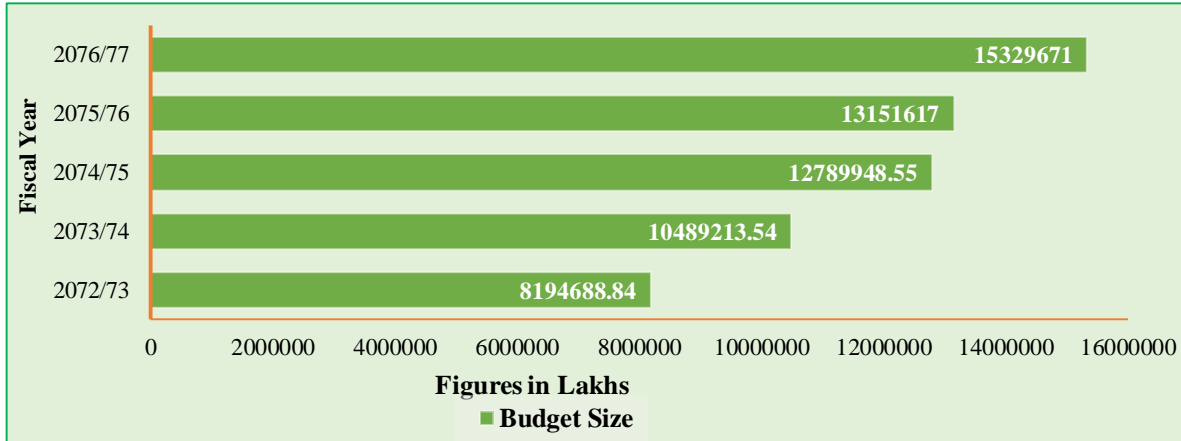
**BUDGET**

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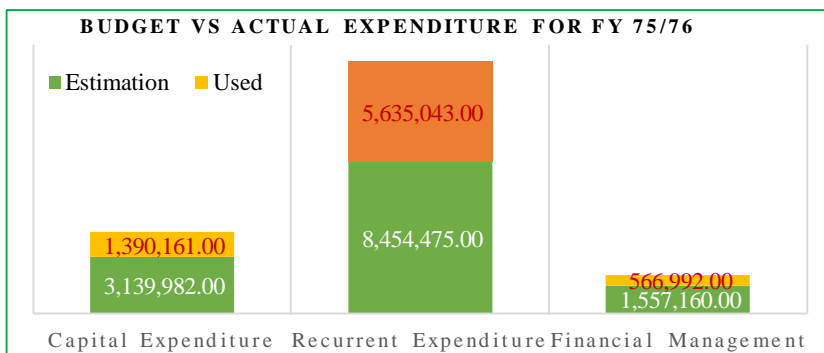
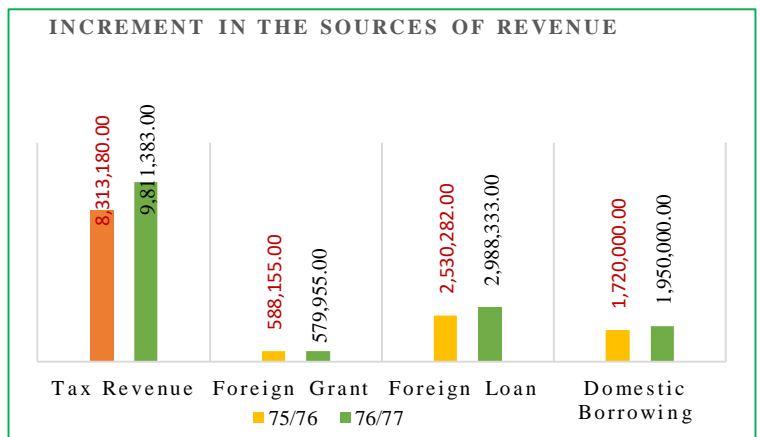
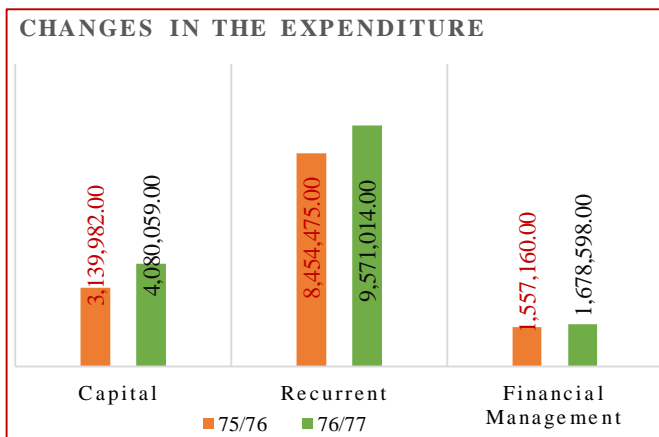
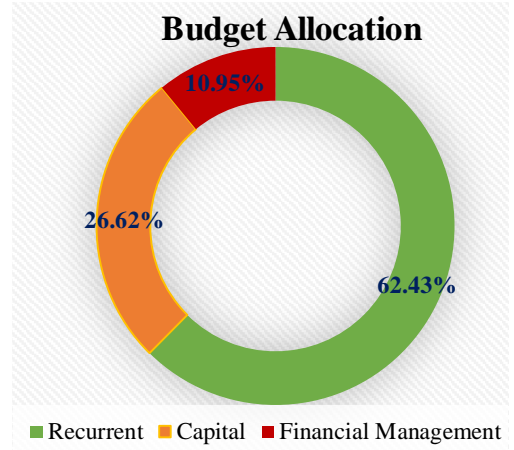
**CAPITAL MARKET**



## Five Year Comparative Fiscal Budget Outlook



BUDGET SIZE		(In words: Rs. Fifteen Kharba Thirty-two Arba Ninety-six Crores and Seventy-one Lakhs)
Rs.153,29,671 lakhs		
Allocation	Capital Expenditure	Rs. 40,80,059 lakhs
	Re-current Expenditure	Rs. 95,71,014 lakhs
	Financial Management	Rs. 16,78,598 lakhs
Sources	Revenues (Taxes)	Rs. 98,11,383 lakhs
	Foreign Grants	Rs. 5,79,955 lakhs
	Foreign Loan	Rs. 29,88,333 lakhs
	Internal Loan	Rs. 19,50,000 lakhs



As of 15<sup>th</sup> Jestha 2076, only 44.27%, 66.65% and 36.41% of the targeted expenditures for fiscal year 2075/76 has been made on Capital, Recurrent and Financial Management respectively. Current Budget has increased the allocation size of Capital, Recurrent and Financial Management by 29.94%, 13.21% and 7.80% respectively.

## Current Fiscal Year 2075/76 Key Bulletins

- ❖ Economic Growth of 7% is projected to be achieved
- ❖ All province has achieved minimum of 6% economic growth.
- ❖ Inflation rate is expected to be 4.5% on average
- ❖ Internal saving has been the highest which accounted 20.5% of GDP.
- ❖ Disposable per capita income has reached to USD1364.
- ❖ Agriculture growth increased by 5% as compared to 2.8% previously.
- ❖ In the 1<sup>st</sup> nine month of current fiscal year, number of Nepalese going for foreign employment has reduced by 39% while flow of remittance has increased by 21%.
- ❖ Insurance service has reached to 18% of population as compared to 14% previously.

## Budget 2076/77 Objectives

- To improve the living standards and quality of the citizens.
- To expedite the socially justifiable economic progress.
- To form basis of socialism directed economy.

## Budget 2076/77 Priorities

- Formation of public welfare system of the State along with social security.
- Formation of national capital, employment opportunities and revenue growth.
- Development of economic and physical infrastructures and implementation of incomplete projects.
- Management of Governance to be felt by every citizens.
- Cooperation among Federal, Provincial and Local level along with Cooperatives and Private sectors.

<b>Target Economic Growth for FY 2076/77</b>	<b>8.5%</b>
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<b>Target Inflation Rate for FY 2076/77</b>	<b>≤ 6%</b>
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### COMPARATIVE BUDGET ALLOCATIONS

Sector	FY 2019/20 (Rs. Lakhs)	FY 2018/19 (Rs. Lakhs)	% Difference
<b>General Public Service</b>	45,90,532.00	39,67,459.00	15.70%
<b>Defence</b>	5,01,061.00	4,49,285.00	11.52%
<b>Public Order and Safety</b>	5,61,188.00	4,75,012.00	18.14%
<b>Economic Affairs</b>	54,13,670.00	48,31,417.00	12.05%
<b>Environmental Protection</b>	2,67,897.00	2,27,180.00	17.92%
<b>Housing and Community Amenities</b>	7,87,545.00	6,65,761.00	18.29%
<b>Health</b>	7,84,044.00	6,53,432.00	19.99%
<b>Recreation, Culture and Religion</b>	72,316.00	71,064.00	1.76%
<b>Education</b>	16,37,559.00	13,41,875.00	22.04%
<b>Social Protection</b>	7,13,859.00	4,69,132.00	52.17%
<b>Total</b>	<b>153,29,671</b>	<b>131,51,617</b>	

## Budget 2076/77 Key Allocation

S.N.	Budget Head	FY 2076/77	FY 2075/76	% Difference
A.	<b>Federal, Provincial and Local Level</b>			
i.	<i>Equalization Grant – Provincial &amp; Local</i>	Rs.145.25 bill.	Rs. 135.51 bill.	7.18%
ii.	<i>Conditional Grants – Provincial &amp; Local</i>	Rs.168.42 bill.	Rs.172.99 bill.	-2.64%
iii.	<i>Revenue Sharing Grants - Provincial &amp; Local</i>	Rs.130.89 bill.	Rs.114.24 bill.	14.57%
iv.	<i>Complementary Grants - Provincial &amp; Local</i>	Rs.10 bill.	Rs.20 bill.	-50%
B.	<b>Social Programs</b>			
i.	Education, Science and Technology	Rs.163.76 bill.	Rs.134.51 bill.	21.74%
ii.	Health	Rs.68.78 bill.	Rs.56.42 bill.	21.91%
iii.	Drinking water and Sanitation	Rs.43.46 bill.	Rs.24.06 bill.	80.63%
iv.	Works and Employments	Rs.7.14 bill.	Rs.4.2 bill.	70%
v.	Social Security and Citizen's Protection	Rs.64.50 bill.	Rs.42.94 bill.	50.21%
vi.	Women, Children and Senior Citizen	Rs.0.78 bill.	Rs.1.88 bill.	-58.51%
vii.	Defence	Rs.50.27 bill.	Rs.45.10 bill.	11.46%
C.	<b>Economic Programs</b>			
i.	Agriculture and Animal Husbandry	Rs.34.80 bill.	Rs.40.15 bill.	-13.32%
ii.	Forest and Environments	Rs.15.49 bill.	Rs.16.59 bill.	6.63%
iii.	Land Management & Cooperatives	Rs.7.69 bill.		
iv.	Tourism, Culture and Civil Aviation	Rs.5.99 bill.	Rs.5.2 bill.	15.12%
v.	Industry, Commerce and Supply	Rs.11.74 bill.	Rs.10.45 bill.	12.34%
D.	<b>Physical Programs</b>			
i.	Energy Development	Rs.54.73 bill.	Rs.56.27 bill.	-2.74%
ii.	Road, Rail and Water Transportation	Rs.163.52 bill.	Rs.109.38 bill.	49.50%
iii.	Transport Management	Rs.1.53 bill.	Rs.1.43 bill.	6.99%
iv.	Housing, Building and Urban Infrastructure	Rs.40.73 bill.	Rs.33.38 bill.	22.02%
v.	Reconstruction after Earthquake and Flooding	Rs.141 bill.	Rs.151.08 bill.	-6.67%
vi.	Air Infrastructures	Rs.15.85 bill.	Rs.19.35 bill.	-18.08%
vii.	Youth and Sports	Rs.3.99 bill.	Rs.4.18 bill.	-4.54%
viii.	Information and Communication	Rs.6.35 bill.	Rs.5.64 bill.	12.58%
E.	<b>Emergency Fund</b>	<b>Rs.5.50 bill</b>		

## Key Take-way of Budget 2076/77

1. Capital Gain Tax for Natural Person reduced to 5% from 7.5%.
2. Capital Gain Tax on shares transactions including Bonus Shares and Right Shares to be computed based on base price derived as per 'Weighted Average' approach.
3. Investors with the transactions exceeding the stipulated trading limits, required to integrate the *Permanent Account Number* (PAN) details to Nepal Stock Exchange (NEPSE) and CDS and Clearing Limited.
4. Secondary Market to be made accessible to Non-Resident Nepalese (NRN's) as well for Investments.
5. Transactions of all securities including Stocks, Bonds & Debentures to be performed through Online Trading Mechanisms.
6. Online Trading System to be developed for transactions of Government Bonds.
7. Encouragement for Merger and Acquisition (M&A) Activities between the Banking and Financial Institutions (BFIs) including the "Big Merger".
8. Encouragement for Merger and Acquisition (M&A) Activities between the Insurance Companies.
9. 1 year extension to be made to the stated time periods in Income Tax Act 2058 regarding Tax exemptions and privileges for BFI's and Insurance companies opting merger and acquisition.
10. VAT waived in Accident and Health Insurance.
11. Provisions regarding publications of Consolidated Financial Statements of Citizens Investment Trusts (CIT), Employees Provident Fund (EPF) and Deposit and Credit Guarantee Fund (DCGF).
12. Policies to be made for deposits of Gold, Silver and other valuable Jewelleries at the Banking and Financial Institutions (BFIs).
13. Priorities on Hydro-power sector; planning for facilitating every citizens for investment in Hydro-power projects.
14. Focus to bring every citizen under arm of Health Insurance.
15. "Kholou Bank Khata" (Lets Open Bank Account) Campaign to be initiated with an objectives of opening bank account of elderly citizens by the end of fiscal year 2076/77.
16. All the Government economic aid and services including payments of all kinds to be made from bank account only.
17. Banking services to be made accessible at the centers of all local levels. Mobile, internet and branchless banking to prioritize for reach of banking services at the remote areas of the country.
18. Encouragement for Merger and Acquisition (M&A) Activities of Savings and Co-operatives Societies. To minimize the risk in such businesses, Cooperative Loan Information Center and Cooperative Saving and Loan Protection Fund to be established.
19. Foreign companies to be encouraged for doing Reinsurance in Nepal.
20. "Ghumti Beema" program to be brought to ease the insurance services at Agriculture and Small Enterprise Business.
21. Digital payment system to be encouraged through promotion of National Payment Gateway
22. Hedging regulations to be made more effective for foreign exchange risk management on foreign investments.
23. Investors to be availed with all kinds of information related to investments through Single Portal Service.
24. To control the increasing trade deficit, effective implementation of Safeguard, Anti-dumping and Countervailing laws to be made besides promotion on exports. Anti-dumping fees to be imposed on identified Agricultural imports.
25. At least 1000 MW capacity of electricity to be added to National Grid, speeding the ongoing projects of Upper Tamakoshi and Rasuwagadhi Hdyro projects.
26. Bring in operation for the first time, the 400 K.V. Dhalkebar Substation Transmission Line. Further, construction of Butwal to Gorakhpur and Galchi-Kerung 400 KV Transmission line to be carried out.
27. Carry feasibility study of Tamor Hydroelectric Project for inclusion in National Pride Project.

## Conclusion and Remarks

The budget of fiscal year 2076/77 has received a warm welcome from the Market Participants. Following the day of budget speech, NEPSE Index opened at a gap up to 1328.62 from the previous closing of 1313.88. Market rose to the high of 1349.34 with a turnover exceeding Rs.1.52 billion. Index however closed at 1319.47 by the end of the day.

We believe the budget has given a major boost and catalyst for the secondary market to continue its bull run, at least to the medium term.

Among the catalysts, the provision of 5% Capital gain tax (CGT) and practice of CGT calculation on Bonus/Right shares on weightage average base price are expected to be instrumental. However, it is still not clarified whether the 5% CGT is the interim or the final withholding one. Participation of NRN's in the secondary market will definitely be a boosting factor for the NEPSE to shine. Automation of securities transactions through Online mechanisms are believed to increase the volumes and Turnovers. BFI's and Insurance companies are encouraged for Merger & Acquisition activities. Digital economy is highlighted and BFIs could see flow of customers. Hydro projects are again a major priorities while 'Visit Nepal 2020' will do good for Hotels. Domestic producers has been encouraged and prioritized.

The overall budget size for 2076/77 has been increased by 16.56% along with 13.21% increment in capital expenditures. These are higher than increment made for 2075/76 budget. Besides, the allocation in basic infrastructures like Health, Education, Drinking water & sanitation, Transportation etc. are commendable. Government staffs salaries has been increased while inflation is targeted to be maintained below 6%. Focus is made on controlling the escalating trade deficits. Per capita income has been found increased in FY 2075/76. Economic growth of the country is projected to reach double digits in coming years while the growth for fiscal year 2076/77 is expected to be approx. 8%.

The above macro factors presents the positive outlooks of securities markets in the coming periods. However, the challenges and the realities both at the macro and micro levels cannot be overlooked. Most important is the under-utilization of allocated budget amounts in every fiscal year. In the current fiscal year 2075/76 which is due to over in less than 2 months, less than 45% of Capital Expenditure has been utilized while 66% and 36% of Recurrent and Financial Management Expenditure are utilized. The budget which was initially estimated at Rs.13.15 Kharba has been revised down to Rs.12.7 Kharba, coming to the year end. This has kept the doubtful looks over the fiscal year 2076/77 budget alive. Clearly, under-utilization of budgets will limits the money circulation in the economy, which directly as well indirectly be the negative for securities markets. On the other hand, revenue collection has not been to its full potentials. As on 15<sup>th</sup> Jestha, Government has been able to collect only 70.77% of the targeted revenues. Earlier 22% yearly increment in the revenue collection was anticipated but now it has been down to 14% only. However, the figure tells the collection to be improving. The widening trade deficits may weaken the domestic currencies all well putting challenges on inflation control. The budget deficit too is expected to widen in the year ahead. Internal loan for the budget has increased by 13.37% in the FY 2076/77 as compared to that of FY 2075/76, warning the likely issue of credit crunch to still persists in the BFIs sectors.

To sum up, the budget 2076/77 can be expected to bring positive hopes to the depressing securities markets. Investor's concerns like CGT has been nicely addressed. BFI's including Insurance could be motivated for merger and acquisition activities. Hydro sectors are likely to be boosted with the construction of national and cross border transmission lines. Securities market could reach to the mass people outside the valley along with the banking reach. Foreign investment including NRN's investment may increase over the year.

*15th Five Year Plan (Fiscal Year 2076/77 – 2080/81) with a target achieve average 9.4% per annum economic growth rate to begin from 1st Shrawan 2076.*

*First Exclusive Industrial Survey 2076*



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