PF4C - Budget Brief Updates No. 1
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# Budget Brief: Overview of the budget - FY 2022/23

**Abstract**
The manner in which the government of Nepal raises revenues and spends resources not only have a significant impact on the but also profoundly affects the lives of children in Nepal. This brief examines the overall FY 2022/23 budget based on data primarily from Redbooks and budget speeches (Ministry of Finance, various years) and the most recent Economic Survey (Nepal Rashtra Bank, 2022).The objective is to provide a concise summary of the latest budget data. When possible, trends are also analyzed.

[1] *This product has been financed by the European Union*

## Contents



## Highlights

- **Fiscal Year (FY) 2022/23 saw a** 41% **increase in the consolidated budget (target estimate) over the previous fiscal years revised expenditures.** The target expenditure level for FY 2022/23 has risen to Nepalese Rupees 1,793.8 billion. The rate of growth of consolidated expenditures has been rising over the last two fiscal years since reaching negative values in FY 2019/20 and registering near zero growth in FY 2020/21.
- However, there are **valid concerns regarding implementation** given the historic context of under-spending. Due to constraints imposed by COVID-19, there was a large divergence between planned and actual expenditures in FY 2019/20 as the second half of that fiscal year felt the socio-economic shocks emanating from the COVID-19 pandemic and containment.
- **Recurrent expenditures comprise** 66% **of expenditures while capital expenditures are estimated at** 21% **of the total - a decrease from last year**. Financial management (investment, loans and principal repayment) comprises 13%. **Aside from grants to PGLGs, the largest share of recurrent expenditures are for civil service pensions and facilities as well as remuneration and benefits**. Given the 'ageing' of the civil service this situation can crowd out other expenditures.
- **Revenues continue to be dominated by taxation instruments such as Value Added Tax (VAT), direct taxes on incomes, property etc., taxes from foreign trade (mainly import duty), and Excise taxes.** These sources of revenues are vulnerable to economic shocks. Revenues contracted by 9% in FY 2019/20. There was a sharp recovery immediately after, although it has been more muted in the last two years.
- The government proposes to **finance this years budget** through **domestic revenues** (83%)**, internal and external loans** (14%) **and grants** (3%).
- **The persistence of deficits has meant an increase in gross debt as well as a notable decline in foreign exchange reserves recently.** The situation can pose difficulties unless managed. As recently as April 2022, there are concerns that foreign exchange reserves have fallen below the threshold considered safe in terms of the number of months of imports it could sustain.
- In terms of functional allocations (COFOG[1] classifica-

[1] These are based on international norms defined in the Classifications of Functions of Government (COFOG) produced by IMF and World Bank to enable comparisons across countries.

tions) **general public service and economic services continue to be allocated more than** 50% **the budget.**

- **Social sector allocations have fallen in real terms**. The social budget – comprising of health, education and social protection has been allocated 29% of the FY 2022/23 budget – a notable decline compared to FY 2020/21. **Most notably there has been a decline in the per cent of the budget allocated for health which fell to** 7% **of the total in FY 2022/23 from** 9% **in FY 2021/22.** Education and social protection shares have also been stagnant. **Although the Ministry of Education, Science & Technology has the highest allocation among all ministries, government allocations are well below its own commitment of** 15%**.**
- **In terms of fiscal federalism,** 76% **of the budget is allocated to central government (CG),** 7% **to Provinces (PG) and** 17% **to Local Governments (LG).** Compared to the previous fiscal year, central government shares have decreased by 1% and exactly offset by an increase in the provincial share (by 1%). The share of the local governments (LGs) have remained unchanged. Given that most fiscal flows to LGs are in the form of conditional grants, it is not clear if the LGs have any autonomy in the design and implementation of their own local specific plans and programmes.
- **In terms of gender responsiveness of the budget,** 40% **of expenditures are considered to directly benefit women, another** 35% **of expenditures were considered to indirectly benefit women and** 25% **were considered to be neutral to women.** Compared to the previous fiscal year there is a marginal improvement as the shares of direct and indirect benefit expenditures rose while neutral expenditures decreased.
- **Based on the most recent data,** 6% **of the budget directly benefits climate,** 28% **indirectly benefits climate while** 66% **is neutral to climate**. This situation is unchanged compared to the previous fiscal year.
- Public expenditures have a direct bearing on the ability to achieve the Sustainable Development Goals (SDGs) and influence the lives of children. **In FY 2022/23,** 73% **of the budget is allocated for SDGs while** 27% **remains to be allocated for any SDG.** There is a notable decrease in the proportion allocated for SDGs from 79% in the last fiscal year. This translates to a notable increase in the amount not allocated for any SDGs. Compared to the priorities in FY 2021/22, SDG1 (End Poverty in all its forms), SDG2 (Zero Hunger), and, SDG16 (Peaceful, Just and Active Society) had increased allocations. On the other hand, there was a decline in SDG3 (Health Lives), SDG7 (Access to modern energy), SDG9 (Resilient infrastructure) and SDG11 (Sustainable cities and settlements). For all other SDGs allocations remained the same. Six SDGs are allocated less than 5% of the budget. There is scope to allocate more expenditures towards gender equality, sustainable clean water/sanitation, Climate change adaptation, Inclusive growth, and, Sustainable utilization of ecosystems. There also does not appear to be any allocation towards SDG 12: Sustainable consumption and production.

## 1. Overview of expenditure & revenue trends

### 1.1 Expenditures

There has been a notable increase in the proposed budget for FY 2022/23 in nominal terms (Figure 1).

- The total consolidated fiscal expenditures (actual estimates, a.e) rose from Nepalese Rupee (NPR) 1,047 billion in FY 2017/18 to NPR 1,209 billion in FY 2018/19.
- In FY 2019/20, as revenues collapsed, expenditures shrank to NPR 1,073 billion: a drop of 11%.
- In FY 2020/21 expectations of a stagnating or shrinking revenue base, along with concerns about execution and implementation, especially at the local levels due to COVID-19, led to curtailed expenditures which rose only marginally to NPR 1,075 billion.
- As the economic recovery began in FY 2021/22, revenues increased, revised consolidated expenditures rose by 18% (compared to the actual estimate for the previous year) to NPR 1,271.96 billion.
- In FY 2022/23, allocations have been projected at NPR 1,794 billion: an increase of 41% over the revised estimate for FY 2021/22.

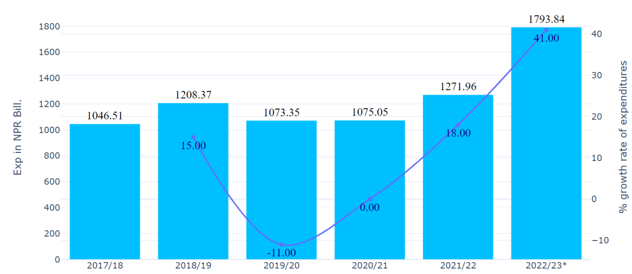


**Figure 1.** Expenditure and rate of growth (right axis)

The ratio of budgeted expenditures to Gross Domestic Product (GDP) has been between $30-25\%$ of GDP since FY 2017/18. It fell from about 31% of GDP in FY 2018/19 to 28% of GDP in FY 2019/20 - a year when GDP also contracted sharply in Nepal along with expenditures. It fell further to 25% of GDP the year after in FY 2020/21 as GDP had started recovering but expenditures had not. Since then the expenditure to GDP ratio has risen and currently is estimated to be 28% of GDP for the current fiscal year. These GDP ratio's are lower than what was observed in the years leading up to the COVID-19 pandemic.

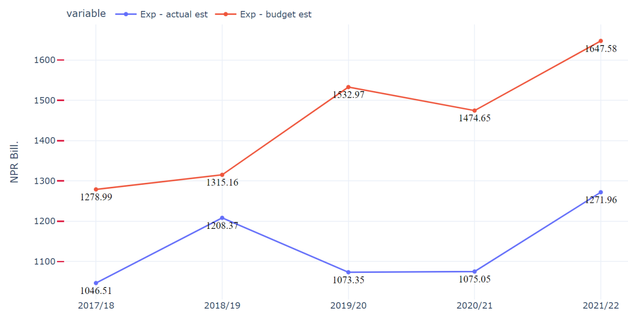


**Figure 2.** Budget targets versus actual realization

Expenditure utilization became problematic during the COVID-19 pandemic and lock-downs and paid put the government's counter cyclical budget allocations. As lock-downs were imposed in March 2020 when the local levels were completing their Annual Work Plan Budgets(AWPBs), some local levels were unable to submit their AWPBs in time and were also hampered by the inability to conduct participatory planning and budgeting processes during this time[2].

- This resulted in a divergence of more than 30% between budgeted expenditures of NPR 1,533 billion in FY 2019/20 and realized expenditures of 1,073 billion that fiscal year. A large part of this divergence was also driven to by the revenue shock that fiscal year. Budget utilization was over 80% prior to the pandemic, but dropped to between 70 and 77 per cent during FY 2019/20 and FY 2021/22. There is a risk that given past trends (Figure 2), the proposed budget allocation for FY 2022/23 like previous years, would remain under-spent.

The most recent consolidated budget expenditure for FY 2023/23 is estimated to be NPR Bill. 1,794. The breakdown among the headings in the budget indicate (Table 1).

- 66% (NPR Bill. 1183.2) would be for recurrent expenditures (an increase of 5% from the last FY budget allocation) of which about 16% are for salaries and benefits and 36% for conditional, equalization, matching and special grants to PGLGs.
- 21% for capital expenditures (NPR Bill. 380.4) a major portion of which is allocated for 'fixed assets receiving expenditures' (92%) such as road and bridge construction and repairs as well as non-residential building construction and purchase.
- 13% (NPR Bill. 208.0) for financial management which includes investments (in domestic debentures and, domestic and international shares) as well as debt servicing. Debt servicing is a non-votable expenditure item (must be paid) and consists of approximately 7% of total budgetary expenditures –higher in magnitude to the health budget.

[2] MoF, Program Completion Report: Covid-19, Active Response and Expenditure Support Programme, 2022

**Table 1.** Heading-wise classification of Expenditures

| Heading | % of heading | % of Total |
|---|---|---|
| **Recurrent** | **1183.2** | **66** |
| Grants to PGLG | 36 | 24 |
| Salary & Benefits | 16 | 11 |
| Social Service Grants to agencies | 12 | 8 |
| Social Security | 11 | 7 |
| Employee social benefits | 9 | 6 |
| Interest on loans | 5 | 3 |
| Social Assistance to agencies | 4 | 2 |
| **Capital** | **380.4** | **21** |
| Expenditure on fixed assets | 92 | 19 |
| Expenditure on natural assets | 5 | 1 |
| Contingency expenditures | 3 | 1 |
| **Financial Mgmt** | **230.2** | **13** |
| Investment in public enterprises | 41 | 5 |
| Principal repayment (Dom.) | 39 | 5 |
| Principal repayment (Int.) | 18 | 2 |
| **Total** | **1,793.8** | |

Expenditure data are in NPR Bill.

## 1.2 Revenues

Total revenues (excluding revenue sharing component) rose by 16 per cent between 2017/18 and 2018/20 from NPR 727 billion to NPR 840 billion (Figure 3). However, in FY 2019/20, revenues contracted to NPR 764 billion – a drop of 9 per cent compared to FY 2018/19. Revenues rose by 18 per cent to NPR 902 billion in FY 2020/21 and continued to rise above 1 trillion in FY 2021/22 (16 per cent increase) as the economy began to recover. In FY 2022/23 the revenue target is at NPR 1,296 billion: an increase of 24 per cent over the revised estimated for FY 2021/22.

It is interesting to note that recovery in revenues (growth rate) was faster than expenditures after FY 2019/20 but has been slower in the last two fiscal years.

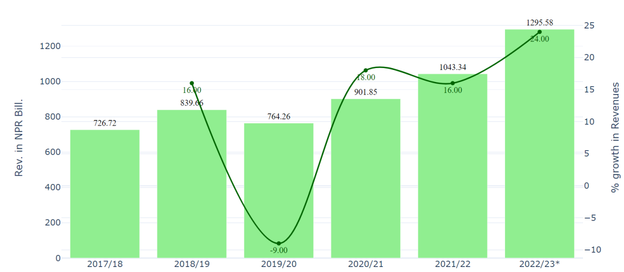


**Figure 3.** Revenues and rate of growth (right-axis)

- Revenues in Nepal are primarily tax based (Figure 4). Value-added taxes, direct taxes in income, property, profits etc, taxes from foreign trade mainly import duties, and Excise taxes contribute just under 90% of consolidated revenues. The vulnerability of the tax base to internal and external economic shocks was exposed during the COVID-19 pandemic.

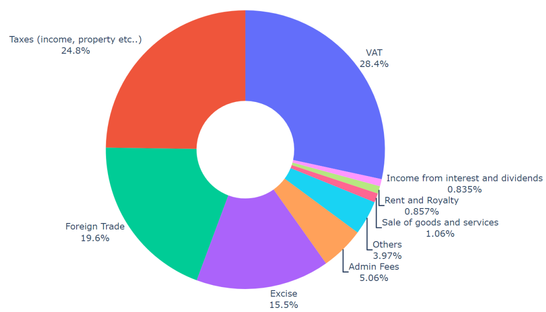


**Figure 4.** Composition of domestic revenues FY 2022/23*

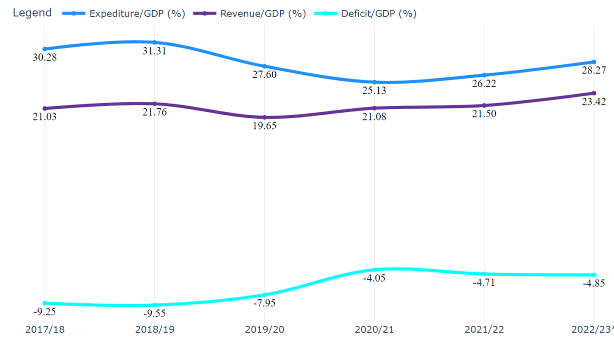


**Figure 5.** Expenditure, revenues and deficits as % GDP

- As a ratio to GDP (Figure 5), revenues in the consolidated fund rose from 21 per cent of GDP in FY 2017/18 to 22 per cent of GDP in FY 2018/19. In FY 2019/20 revenues contracted sharply to 20 per cent of GDP. Since then this ratio has drifted upwards slowly and expected to be over 23 per cent of GDP for FY 2022/23*.

## 1.3 Deficits, Debt and Forex reserves

The government is proposing to finance estimated expenditures in the budget through a combination of own revenues, domestic debt, international debt and grants from development partners.

- In FY 2022/23 it is estimated that the government would be able to finance 83% from its own sources, another 3% from grants while the remaining 17% would be financed from loans.
- It is interesting to note that grant financing of the budget is being replaced by debt and own source financing over the years.
- Furthermore, some 35% of the expenditure target for capital expenditures are expected to be financed through loans with the government contributing 59% of the total.
- With respect to fiscal transfers there is a 4% reliance on loans with the government proposing to contribute 93% of the share with rest 3% being covered through grants.
- To the extent that revenues fall short of expectations or grants and loan commitments do not materialize on time, there could be problems in reaching targeted expenditures.

It is interesting to note that due to the contraction of both revenues and expenditures during FY 2019/20 and the continued progress of revenues in FY 2020/21, the overall fiscal deficit improved for Nepal. Deficits as a share of GDP fell from -9 per cent in FY 2017/18 to -4 percent during FY 2019/20 (because both revenues and expenditures contracted, the latter contracting more sharply). Since then it has drifted upwards to an estimated -4.9 percent in FY 2022/23 (Figure 5).

The persistence of a gap between revenues and expenditures implies leveraging debt to finance expenditures in excess of revenues.

- Debt as a per cent of GDP rose from around 27 per cent in the pre-COVID years to 37 per cent of GDP in FY 2019/20 - a rise of more than 35 per cent and 9.6 per cent of GDP[3].
- Debt continued rising to 44 per cent of GDP by FY 2021/22.
- Loans received by Nepal are not only used to finance the primary deficit, but also for principal repayment of loans as well as investments domestically and internationally. Although Nepal's debt to GDP ratio is not as high as some of her neighbours, as per the most recent budget, some 10 per cent of expenditures are diverted for debt servicing. These recent years have also seen a substitution of domestic debt for external debt in recent years: the share of domestic debt rose from 41 per cent of the total in FY 2017/18 to 46 per cent of total debt in FY 2021/22. In tandem with rising debt, there was a significant reduction of foreign exchange reserves starting from FY 2019/20 and dropping sharply in FY 2021/22. Both these developments need to be managed carefully.

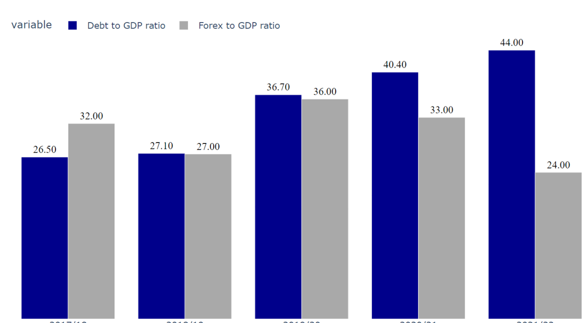


**Figure 6.** Gross debt and Forex reserves as % GDP

[3]Source: Nepal Rashtra Bank, Socio-Economic Survey, 2022 and IMF, World Economic Outlook, 2022

## 2. Ministries with the top allocations

Ministries with the top 5 budget allocations are:

- The Ministry of Finance-including debt repayment and civil service pensions, (21.2%), Ministry of Education, Science & Technology (10.9%), Ministry of Home Affairs (10.4%) Ministry of Physical Infrastructure & Transport (9.8%), and the Ministry of Energy, water resources and irrigation (7.4%).
- The ministry of health and population saw a decline in the allocation in FY 2022/23 (5.75%).
- The allocation to MoF for repayment of loans is close to 10% of the budget which is much larger than the health budget allocation for FY 2022/23. Similarly, the budget allocation for civil service pensions and facilities is also larger than the health budget allocation. Given the imminent 'ageing' of the civil service work force in the near future, this category of expenditure will rise and has the potential to crowd out expenditures for other ministries.

These five ministries account for nearly 60% of budget allocations. The remaining 40% is allocated among some 14 commissions, the offices of the President, Vice President, Province Chiefs, Federal Parliament, courts, Office of the Prime Minister and council of Ministers and eighteen remaining Ministries.

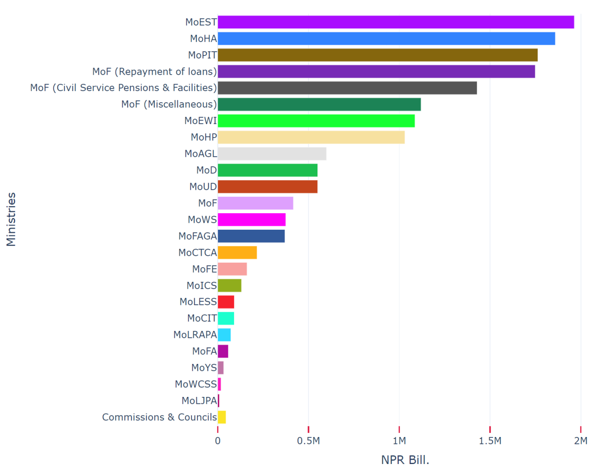


**Figure 7.** Ministry-wise allocation of FY 2022/23 budget

## 3. Functional classification of the budget

The breakdown of expenditures (FY 2022/23 budget estimates) according to the 'Classifications of the Functions of Government' (COFOG) along with the breakdown for the last several years is shown in Figure 8.

- From a functional perspective the largest share of expenditures is for general public services (which includes transfers and funding for the executive and legislative branches of the government) and economic affairs (which consists of sectors such transport, communication, agriculture, etc.) comprising over 56 per cent of all expenditures in the last several fiscal years.
- Defense, and, peace and security, comprise another 7% of allocations.
- The budget for environment protection which includes waste and sewage management among other things has been less than 1% of allocations for the last two fiscal years.
- Housing and amenities (which includes drinking water supply among other things) has been allotted about 5% of the budget.
- The functional allocation for health, education and social protection amounts to about 29% of the total.

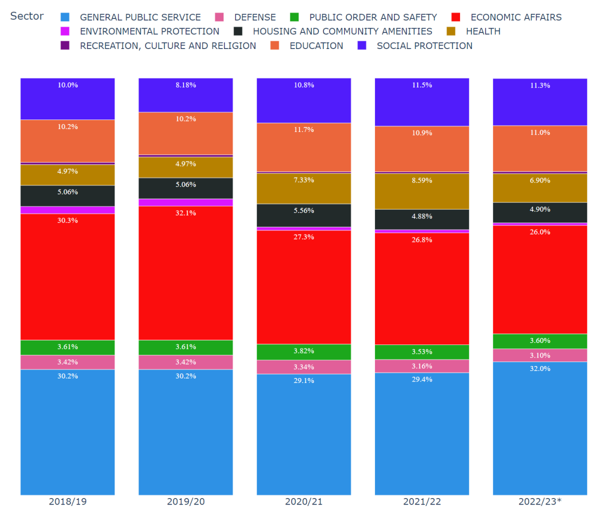


**Figure 8.** Functional Composition FY 2022/23 budget

## 4. Social sector budget and trends

Isolating the social sectors (Health, Education and Social Protection) the data indicates that for the first time since FY 2018/19, social sector expenditures failed to grow in real terms in the proposed budget allocation for FY 2022/23 (Figure 9).

- The total social sector budget increased from NPR 310 billion in FY 2018/19 just prior to the COVID-19 pandemic, to a targeted NPR 524 billion by FY 2022/23: an increase of 58%.
- It is noteworthy that during the peak of the COVID-19, even as revenues plunged, the government was able to increase social sector expenditures.
- The increases have not been even. In FY 2022/23, the budget for health has decreased in nominal (and in real) terms.
- Subsequently, the estimated target for the social sector budget increased by only 2% in FY 2022/23, which is

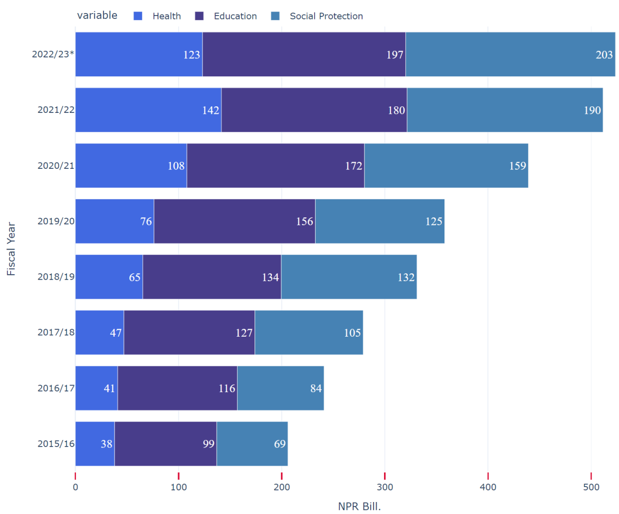


**Figure 9.** Social Sector Expenditure trends

considerably less than the inflation rate for the corresponding time period (approximately 6%). This fall in real allocations is of concern since it means that households have to bear a rising burden of social expenditures even as they are recovering from the COVID-19 crises and inflation risks remain.

As a per cent of expenditures, total social sector spending has been projected in the FY 2022/23 budget to fall to 29 per cent of targeted expenditures (Figure 10).

- Social sector (comprising of health, education and social protection) functional allocations fell from 25 per cent of total expenditures in FY 2018/19 to 23 per cent of total expenditures during FY 2019/20 (by reducing the social protection expenditure share).
- In FY 2020/21 expenditures in health (Covid-19 response), education and social protection increased (as coverage was expanded, benefits were raised and emergency relief packages introduced) as a per cent of total expenditure and hence social sector allocations rose to over 30 percent of total expenditures.
- The most notable increase was in health. This was achieved by reallocating away from economic affairs (sectors such as transport, communication, agriculture, etc.) and general public services ((legislative and executive branches of the government and transfers).
- In FY 2021/22 the share of expenditures comprising social protection and notably health increased, the share of education dropped but the overall share of social protection increased to over 31 per cent of the total.
- In FY 2022/23 the target allocation for health has fallen significantly while that for education has barely risen while social protection declined marginally. Overall, social sector allocations have dropped to 29% (stemming from the sharp drop in health), compared with 31% for the previous year.
- In FY 2022/23 as in the past few fiscal years, Government expenditure targets remain well below its own commitment of 15% of the total budget (Education for All).

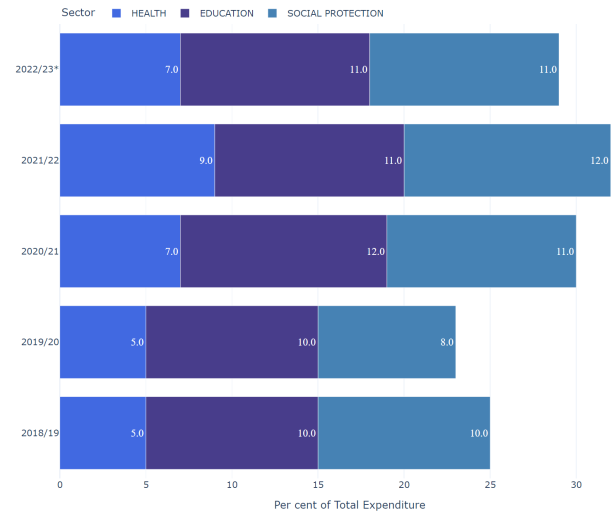


**Figure 10.** Social Sector as % Total Expenditures

After rising for the last five fiscal years, social sector expenditures as a per cent of GDP are expected to fall in FY 2022/23 (Figure 11). This is because the nominal increase in target social sector expenditures of about 2% over the previous fiscal year was lower than than rate of growth of GDP (projected at 5.5%).

- As a per cent of GDP total social sector allocations rose from 8.06 per cent in FY 2017/18 to 8.58 per cent in FY 2018/19 driven by increases in education and social protection that offset the marginal decrease in health.
- In FY 2019/20 social sector spending ratios increased, for all the sectors except social protection.
- In FY 2020/21 social sector shares crossed 10% of GDP for the first time with all sectors showing increasing shares.
- In FY 2021/22 social sector shares continued to increase to 10.54%.
- In FY 2022/23 however, the estimated expenditures on the social sectors are 9.5 per cent of GDP – a notable decrease in all sectors and a matter of concern.

Despite the increasing overall budget in nominal terms, the social sector budget has shown a decline in real terms as it grew by only 2% - slower than inflation. In real per capita terms, social sector expenditures dropped from USD 139 in FY 2021/22 to USD 138 targeted in FY 2022/23. This drop suggests that social sector expenditures comprise less than 10% of per capita GDP raising doubts regarding the sufficiency of these expenditures in the context of a 'smart' recovery. In particular, health expenditures on a per capita real basis dropped by more than 15%.

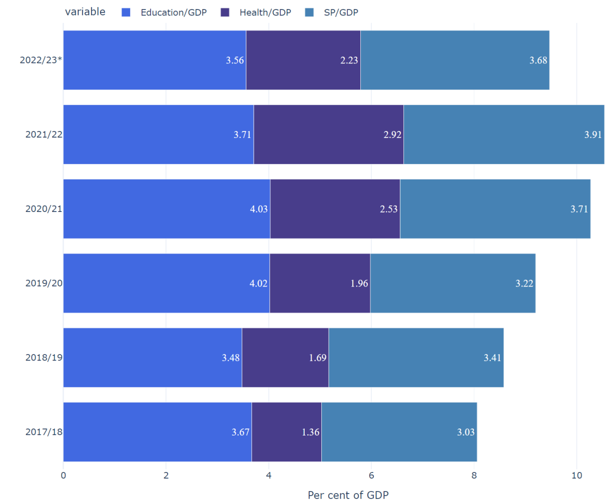


**Figure 11.** Social Sector as % GDP

## 5. Federalism and the budget

The classification of COFOG expenditures can be split into the three different layers of government. Education has the highest allocation (in per cent terms) to local governments, followed by General Public Services and Health. Only two sectors are completely centralized: Defense and Public peace, security (Figure**??**.

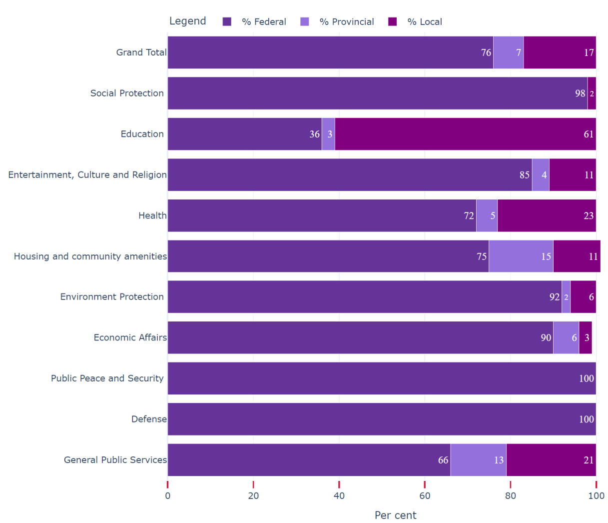


**Figure 12.** Federalism and the FY 2022/23 budget

- The federal government share of the proposed budget for the ongoing fiscal year is 76%, down from 77% in the previous fiscal year. The allocation for local governments have remained the same at 17%. Provinces have been allocated 7% of the budget, up from 6% the last fiscal year.
- The education allocation for the LGs have decreased from 64% to 61% and offset by the increase in the federal allocation which rose from 31% in FY 2021/22 to 34% in the proposed FY 2022/23 budget.
- LG allocations for Health, Entertainment, Culture and Religion, Housing and community amenities as well as environment protection increased in FY 2022/23 signaling larger functional responsibilities at local levels.
- LG allocations for General Public Services decreased from 24% in FY 2021/22 to 21% in the proposed FY 2022/23 budget. The Province allocation also reduced from 14% to 13%. The federal allocation also rose from 62% to 66%.

Since most of the expenditures at PGLG levels are controlled through central releases of grants (mainly conditional), it is not really clear if there is full autonomy at the local levels in designing, implementing, monitoring and evaluating the projects and programs that are actually driven by local government context specific evidence and risk informed decisions.

## 6. Gender and the budget

The most recent budget for FY 2022/23 presents a 'Gender Responsiveness' classification of the consolidated budget. Activities were women benefit more than 50% are considered directly to benefit, activities were women benefit between $20-50\%$ are considered indirectly to benefit and activities were women benefit less than 20% are considered neutral. These scores are in turn derived from a set of 5 indicators that relate to participation in planning and its implementation, capacity development, increase women's control, increased women's employment and income, and, quality improvement of women's time and decrease in work-load.

- As per these guidelines, the data suggest 40% of expenditures are considered to directly benefit women, another 35% were considered to indirectly benefit women and 25% were considered to be neutral to women (Figure 12). Compared to the last FY 2021/22 revised estimates, expenditures that directly or indirectly benefit women have increased by 1% point each while those that are neutral to women have decreased by 2% points.
- The top four ministries directly supporting women were found to be Ministry of Home Affairs (15% of direct benefit expenditures), Ministry of Education, Science & Technology (17% of direct benefit expenditures), Ministry of Health & Population (11% of direct benefit expenditures), Ministry of Physical Infrastructure& Transport (9% of direct benefit expenditures) .
- These four comprise over half of all direct expenditures for women.
- In addition, all PG and LG expenditures (as well as expenditures of the Ministry of Women, Children and Senior Citizens) were considered to directly benefit women (comprising of 27% of direct benefit expenditures).
- In terms of indirectly benefiting women, the Ministry of Physical Infrastructure and Transport contributed

the highest share to indirect expenditures for women – 17%, followed by the Ministry of Education, Science & Technology (11%).

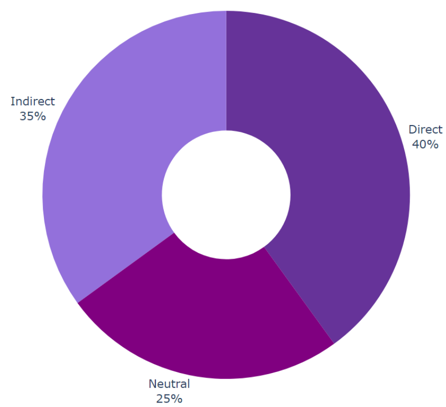


**Figure 13.** Gender responsiveness of the budget

## 7. Climate responsiveness of the budget

The budget Red Books contain tables on the climate responsiveness of the budget. Similar to the classification for gender responsiveness of the budget, direct benefits imply expenditures where climate benefit is expected to be higher than 50%. Indirect benefits imply climate benefits in the range of 20% – 50%. Neutral classification is reserved for when climate benefits are expected to be less than 20%.

- Based on the guidelines, the data for the most recent FY suggests that only 6% of the budget directly benefits climate, 28% indirectly benefits climate while 66% is neutral to climate (Figure 14).
- The highest contributions towards direct climate change are made by the Ministry of Energy, Water Resources and Irrigation (35%), Ministry of Water Supply (13%), Ministry of Forest and Environment (8%), the Ministry of Physical Infrastructure and Transport (6%), Ministry of Urban Development (3%) and the Ministry of Agriculture and Livestock (3%)
- These ministries contribute nearly 80% of expenditures that directly benefit the climate.

## 8. SDGs and the budget

The most recent budget Red Books allow a comparison of allocations for the Sustainable Development Goals (SDGs).

- The most significant change was the increase in the category 'Not allocated for any SDG' which went up from 21% in FY 2021/22 to 27% in FY 2022/23. This means that in FY 2022/23, only 73% of the total budget allocations are for SDGs.

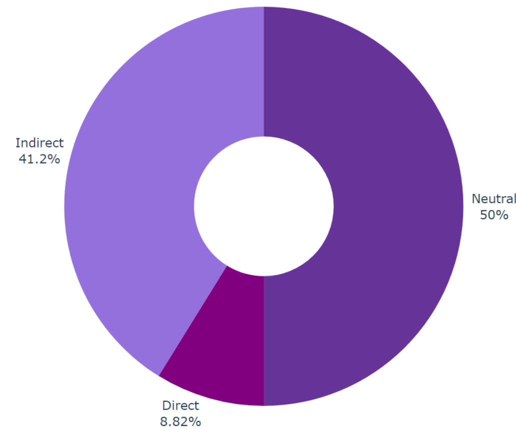


**Figure 14.** Climate Responsiveness of the Budget

**Table 2.** Percent allocated for SDGs

| SDG | Goal | FY 2021/22 | FY 2022/23* |
|---|---|---|---|
| 1 | End Poverty in all forms | 7 | 10 |
| 2 | Zero Hunger | 4 | 5 |
| 3 | Healthy Lives | 8 | 6 |
| 4 | Inclusive & Quality Education | 11 | 11 |
| 5 | Gender Equality | $< 1$ | $< 1$ |
| 6 | Sustainable clean water/sanitation | 2 | 2 |
| 7 | Access to modern energy | 5 | 4 |
| 8 | Inclusive Economic Growth | 3 | 2 |
| 9 | Resilient infrastructure | 14 | 12 |
| 10 | Inequality Reduction | 6 | 6 |
| 11 | Sustainable cities and settlements | 9 | 7 |
| 13 | Climate change adaptation | 1 | 1 |
| 15 | Sustainable Utilization of ecosystem | $< 1$ | 1 |
| 16 | Peaceful, Just and Active Society | 7 | 8 |
| 0 | Not allocated for any SDG | 21 | 27 |

Source. MoF Budget Speech (2022/23); MoF 2021/22 Redbook

- In FY 2021/22 the top 5 SDG priorities in terms of budget allocations were for SDG9: resilient infrastructure (14%),SDG4: Inclusive and Quality Education, SDG11: Sustainable cities and settlements, SDG3: Health Lives, and, SDG10: Inequality reduction. In FY 2022/23, the top 5 SDG priorites as per allocations saw some changes. The top 5 SDGs receiving allocation were SDG9 (Resilient infrastructure,12%), SDG4 (Inclusive and Quality Education), SDG1 (End Poverty in all its forms, 10%), SDG16 (Peaceful, Just and Active Society) and SDG11 (sustainable cities and settlements).
- Compared to the priorities in FY 2021/22, SDG1 (End Poverty in all its forms), SDG2 (Zero Hunger), and, SDG16(Peaceful, Just and Active Society) had increased allocations. On the other hand, there was a decline in SDG3 (Health Lives), SDG7 (Access to modern energy), SDG9 (Resilient infrastructure) and SDG11 (Sustainable cities and settlements). For all other SDGs

allocations remained the same.
- Six SDGs are allocated less than 5% of the budget. There is scope to allocate more expenditures towards gender equality, sustainable clean water/sanitation, Climate change adaptation, Inclusive growth, and, Sustainable utilization of ecosystems. There also does not appear to be any allocation towards SDG 12: Sustainable consumption and production.

## 9. Conclusion

The data suggest that the current fiscal years budget proposal is ambitious and optimistic. There is an urgency to therefore ensure implementation capacity exists - especially at PGLG levels while strengthening PFM systems. The dependence on loans (increasingly private) had implications on the overall debt structure, foreign exchange reserves and liquidity. Although the current gross debt to GDP ratio in Nepal is lower than some of her neighbours, debt servicing consumes nearly 10% of the budget and are considered non-votable expenditures: they must be paid. Foreign exchange reserves in Nepal have also hit a recent low. Another risk for the sustainability of current expenditures relates to civil service pensions - which consumes a significant share of recurrent expenditures. Given that the civil service workforce will age imminently, this may pose a problem as pension related expenditures would surge even higher. The reliance on loans, especially for capital expenditures, makes it important to synchronize project capital requirements with donor and internal flows of loans. The last budget showed debt and interest repayments to be larger than the health budget.

Given the context of economic recovery following the devastation caused by the COVID-19 pandemic, globally and in Nepal, it is a matter of concern that real social sector allocations have fallen. Therefore issues related to sufficiency and efficacy become important.Given that a significant portion of expenditures in the social sector also accrue for personnel related expenditures, there is an urgency to ensure that vulnerable households receive sufficent, effective and efficient interventions to allow them to meet basic needs. Within the context of recovery it is globally known that investing in the social sectors, specially in the holisitc development and formation of a young child's brain, is among the smartest strategies to promote sustainable growth. Finally, the per cent not allocated to any SDG has increased in the recent budget. Many SDGs remain underfunded and this situation could undermine Nepal's achievements thus far and in the future.

Finally, teh absence of child budget codes in the budget makes it difficult to identify public expenditures focused on children. The Government has already begun contemplating this issue and needs support to amplify results in this area.

In conclusion, it would be fair to summarize by saying that although Nepal's performance during the peak of the pandemic, especially in relation to social sector allocations was commendable, and prevented many lives from catastrophe, current allocations show a reversal towards lower real allocations. This is a matter of great concern on multiple fronts.

## 10. Data notes

This brief is based on publicly available secondary data. This document was written and typeset in LaTeXwhile the data analyses and graphs were produced using Excel, R and Python. The data sources for this brief are:

- FY 2022/23* budget speech (translated english version)
- Budget Red books published by the MOF for previous fiscal years. These were translated and converted to Excel, R and Python for further analyses and graphics.
- The most recent socio-economic survey by the Nepal Rashtra Bank (NRB, April, 2022)
- The most recent World Economic Outlook (IMF, April 2022)
- The most recent census estimates to derive per capita estimates

To the extent possible, the data have been checked and cross-validated from multiple sources. Each years Red books lists data for the current budget/target estimate, the previous years revised estimate and the actual estimate for the year previous to that. Hence analyzing the Red books from FY 2017/18 through to FY 2021/22 and using data from the FY 2022/23* budget speech, it is possible to construct the time series data used in this brief for actual estimates, budget/target estimates and the revised estimates for the last few fiscal years. Other macro data used in the brief were from the latest publications by the Nepal Rashtra Bank (NRB, ibid.) as well as from the International Monetary Fund (IMF 2022, ibid.)

## 11. References

1. Asian Development Bank (ADB), Asian Economic Outlook, 2022
2. Central Bureau of Statistics (CBS), Nepal Housing and Population Projections - Census 2021, 2022
3. International Monetary Fund (IMF), World Economic Outlook, April 2022
4. Nepal Rashtra Bank (NRB), Current Macro economic and fiscal indicators, August 2022
5. Nepal Rashtra Bank (NRB), Economic Report, 2022a.
6. Ministry of Finance (MoF), Budget Speech (Unofficial Translation) FY 2022/23. 2022
7. Ministry of Finance (MoE), Redbooks - various years.
8. World Bank (WB)), Nepal Development Update, April 2022.

## Acknowledgments

This product acknowledges the financial support of the European Union. It was produced by UNICEF, Nepal CO, SPEE team.

## Annex: Data & Figures

This data annex presents a copy of the raw data as well as scaled versions of the figures in this brief. These graphs are also available in interactive html format for dashboards, infographics and presentations.

| # | Budget items | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | Source |
|---|---|---|---|---|---|---|---|---|
| 1 | Tax | | | 700.06 | 870.11 | 1,008.08 | 1,295.38 | Redbooks + Budget speech rolling update |
| 2 | Other | | | 93.69 | 65.78 | 89.98 | 107.77 | Redbooks + Budget speech rolling update |
| 3 | Miscellaneous | | | 47.66 | 40.42 | 54.36 | 0.00 | Redbooks + Budget speech rolling update |
| 4 | Rev. Sharing | | | 100.87 | 110.94 | 133.90 | 163.03 | Redbooks + Budget speech rolling update |
| 5 | Grants | | | 23.72 | 36.48 | 24.81 | 55.46 | Redbooks + Budget speech rolling update |
| **6** | **Total Consolidated Rev (1+2+3-4+5)** | **726.72** | **839.66** | **764.26** | **901.85** | **1,043.34** | **1,295.58** | Redbooks + Budget speech rolling update |
| 7 | Total Income (6+16) | | | 1,075.81 | 1,298.80 | 1,447.52 | 1,793.84 | Redbooks + Budget speech rolling update |
| 8 | Recurrent Exp | 699.59 | 782.89 | 701.96 | 451.70 | 577.80 | 753.40 | Redbooks + Budget speech rolling update |
| 9 | Capital Exp | 238.66 | 272.77 | 239.16 | 228.84 | 300.09 | 380.38 | Redbooks + Budget speech rolling update |
| 10 | Fiscal Transfer | 108.26 | 152.71 | 132.23 | 394.52 | 394.07 | 429.83 | Redbooks + Budget speech rolling update |
| **11** | **Expenditure (8+9+10)** | **1,046.51** | **1,208.37** | **1,073.35** | **1,075.05** | **1,271.96** | **1,563.62** | Redbooks + Budget speech rolling update |
| 12 | Expenditure allocation | 1,278.99 | 1,315.16 | 1,532.97 | 1,474.65 | 1,647.58 | 1,793.84 | Redbooks + Budget speech rolling update |
| | Utilization/Allocation | 0.82 | 0.92 | 0.70 | 0.73 | 0.77 | | |
| **13** | **Primary Deficit (11-6)** | **319.79** | **368.71** | **309.09** | **173.20** | **228.62** | **268.04** | Redbooks + Budget speech rolling update |
| 14 | Principal repayment | | | 57.54 | 60.23 | 79.16 | 133.11 | Redbooks + Budget speech rolling update |
| 15 | Investment | | | 60.36 | 61.39 | 96.40 | 97.11 | Redbooks + Budget speech rolling update |
| 16 | Loans received | | | 311.55 | 396.95 | 404.18 | 498.26 | Redbooks + Budget speech rolling update |
| 17 | Total Outflow (11+14+15) | | | 1,191.25 | 1,196.68 | 1,447.52 | 1,793.84 | NRB: SocioEconomic Update April 2022 |
| 18 | GDP (nominal, Bill. NPR) | 3,455.95 | 3,858.93 | 3,888.70 | 4,277.30 | 4,851.62 | 5,530.85 | NRB: SocioEconomic Update April 2022 |
| 19 | GDP (real) r.o.g | 7.37% | 6.39% | -2.42% | 3.83% | 5.50% | 5.60% | NRB: SocioEconomic Update April 2022 |
| 20 | Inflation rate (% change CPI) | 4.60 | 6.02 | 6.15 | 3.60 | 5.16 | 4.50 | NRB: SocioEconomic Update April 2022 |
| 21 | USD Exchange Rate (NPR) | 106.21 | 104.37 | 112.88 | 115.20 | 120.49 | 125.00 | NRB: SocioEconomic Update April 2022 |
| 22 | Estimated pop (mill. Mid Yr.) | 27.63 | 28.10 | 28.47 | 28.84 | 29.10 | 29.10 | CBS: Census 2021 |
| 23 | Current Account Balance /GDP | -7.14% | -6.92% | -0.87% | -7.80% | -12.00% | | NRB: SocioEconomic Update April 2022 |
| 24 | Remittances /GDP | 22.60% | 21.85% | 22.79% | 22.50% | 22.47% | | NRB: SocioEconomic Update April 2022 |
| 25 | Gross Foreign Exchange (GFE) /GDP | 31.90% | 26.92% | 36.05% | 32.71% | 24.07% | | NRB: SocioEconomic Update April 2022 |
| 26 | GFE (Bill. NPR) | 1,102.60 | 1,038.90 | 1,401.84 | 1,399.03 | 1,167.92 | | NRB: SocioEconomic Update April 2022 |
| 27 | GFE (Mill. USD) | 10,084.00 | 9,500.00 | 11,646.06 | 11,752.56 | 9,610.96 | | NRB: SocioEconomic Update April 2022 |
| 28 | GFE/GDP | 31.90% | 26.92% | 36.05% | 32.71% | 24.07% | | NRB: SocioEconomic Update April 2022 |
| 29 | Revenue/GDP | 21.03% | 21.76% | 19.65% | 21.08% | 21.50% | 23.42% | Calculated |
| 30 | Expenditure/GDP | 30.28% | 31.31% | 27.60% | 25.13% | 26.22% | 28.27% | Calculated |
| 31 | Deficit/GDP | 9.25% | 9.55% | 7.95% | 4.05% | 4.71% | 4.85% | Calculated |
| 32 | Expenditure r.o.g | 24.75% | 15.47% | -11.17% | 0.16% | 18.32% | 22.93% | Calculated |
| 33 | Revenue r.o.g | 15.00% | 15.54% | -8.98% | 18.00% | 15.69% | 24.18% | Calculated |
| 34 | Per Capita Exp (NPR) | 37,871.74 | 43,008.53 | 37,706.40 | 37,276.47 | 43,709.87 | 53,732.63 | Calculated |
| 35 | Per Capita Exp (USD) | 356.57 | 412.07 | 334.04 | 323.59 | 362.76 | 429.86 | Calculated |
| 36 | Health (b.e) | 47.09 | 65.34 | 76.17 | 108.05 | 141.55 | 123.26 | Redbooks + Budget speech rolling update |
| 37 | Education (b.e) | 126.78 | 134.19 | 156.41 | 172.19 | 180.04 | 196.89 | Redbooks + Budget speech rolling update |
| 38 | Social Protection (b.e) | 104.65 | 131.54 | 125.40 | 158.89 | 189.90 | 203.34 | Redbooks + Budget speech rolling update |
| 39 | Total Social Sector (b.e) | 278.52 | 331.07 | 357.97 | 439.12 | 511.49 | 523.49 | Calculated |
| 40 | Health/GDP | 1.36% | 1.69% | 1.96% | 2.53% | 2.92% | 2.23% | Calculated |
| 41 | Edu/GDP | 3.67% | 3.48% | 4.02% | 4.03% | 3.71% | 3.56% | Calculated |
| 42 | SP/GDP | 3.03% | 3.41% | 3.22% | 3.71% | 3.91% | 3.68% | Calculated |
| 43 | Total SS/GDP | 8.06% | 8.58% | 9.21% | 10.27% | 10.54% | 9.46% | Calculated |
| 44 | Health/Expenditure | 3.68% | 4.97% | 4.97% | 7.33% | 8.59% | 6.87% | Calculated |
| 45 | Education/Expenditure | 9.91% | 10.20% | 10.20% | 11.68% | 10.93% | 10.98% | Calculated |
| 46 | Social Protection/Expenditure | 8.18% | 10.00% | 8.18% | 10.77% | 11.53% | 11.34% | Calculated |
| 47 | Total Social Sector/Expenditure | 21.78% | 25.17% | 23.35% | 29.78% | 31.05% | 29.18% | Calculated |
| 48 | Per Capita Exp Health (USD) | 16.04 | 22.28 | 23.70 | 32.52 | 40.37 | 33.88 | Calculated |
| 49 | Per Capita Exp Edu (USD) | 43.20 | 45.76 | 48.68 | 51.83 | 51.35 | 54.13 | Calculated |
| 50 | Per Capita Exp SP (USD) | 35.66 | 44.86 | 39.02 | 47.82 | 54.16 | 55.90 | Calculated |
| 51 | Per Capita Exp Social Sector (USD) | 94.90 | 112.90 | 111.40 | 132.18 | 145.88 | 143.91 | Calculated |

UNICEF SPFF, June 8th 2022

Data Annex: Master table

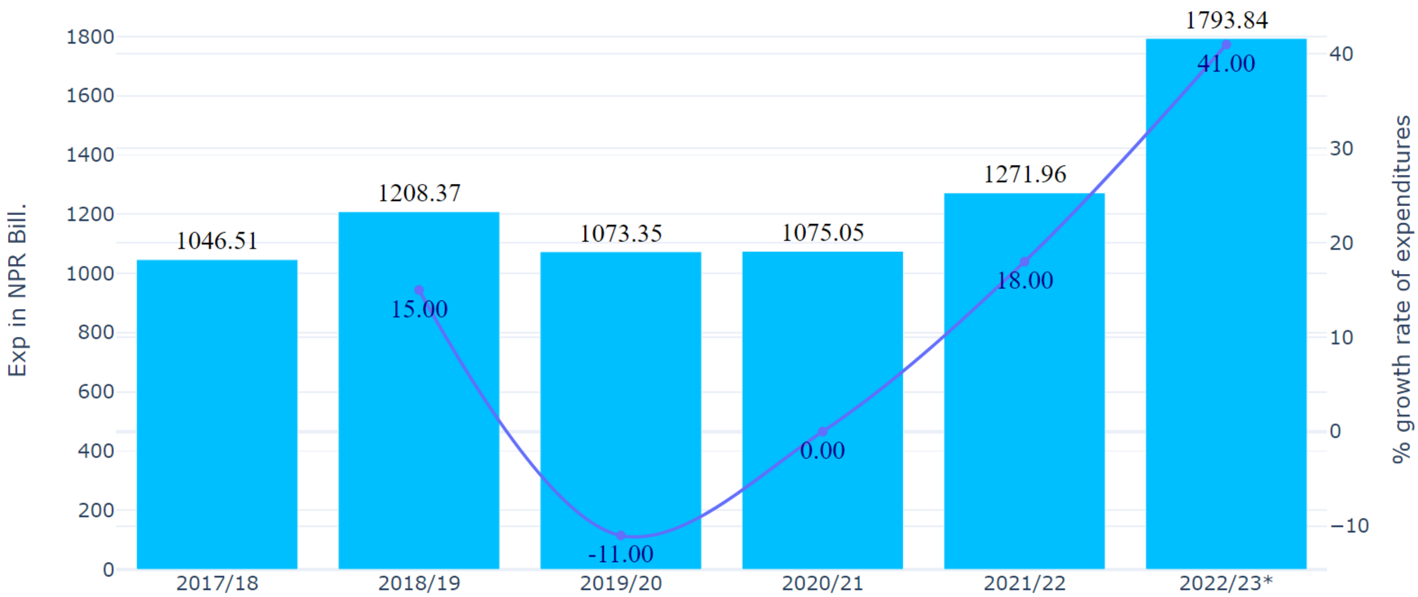


Figure 1: Expenditure and rate of growth (right axis)

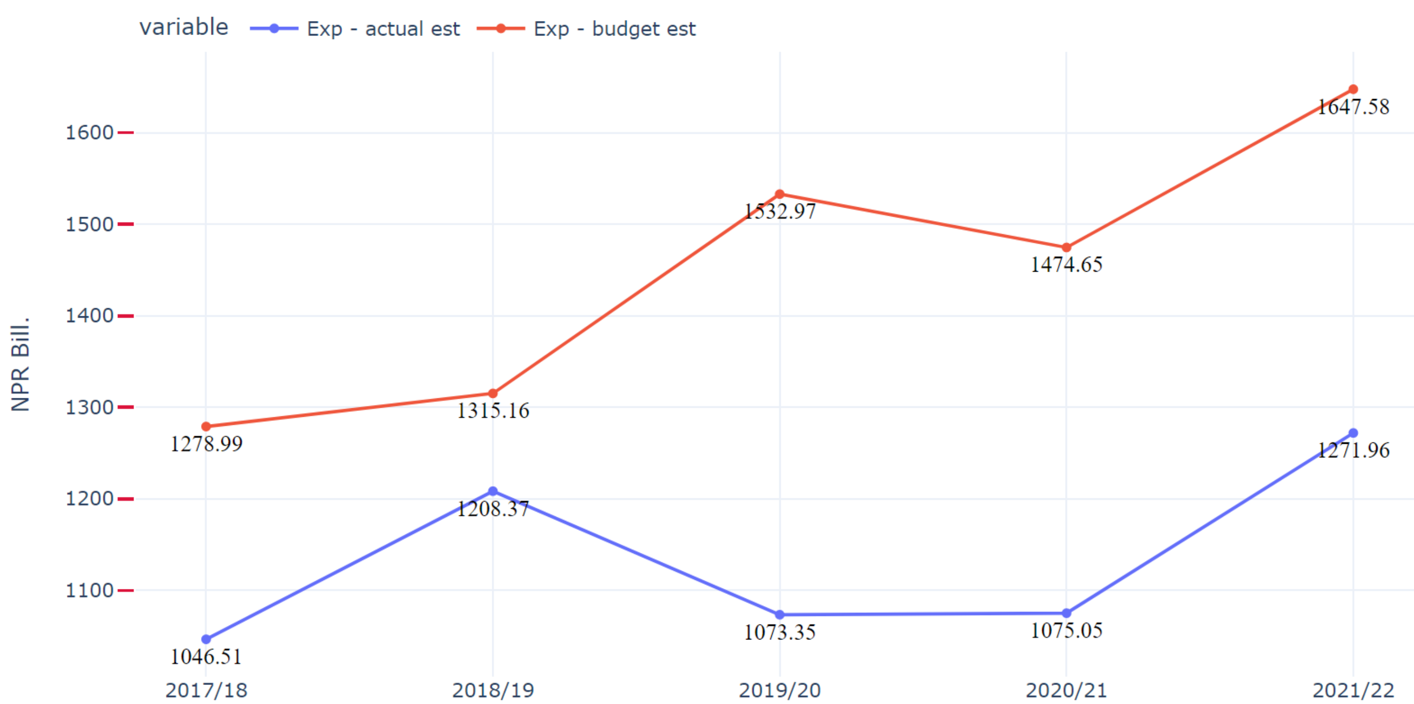


Figure 2: Budget targets versus actual realization

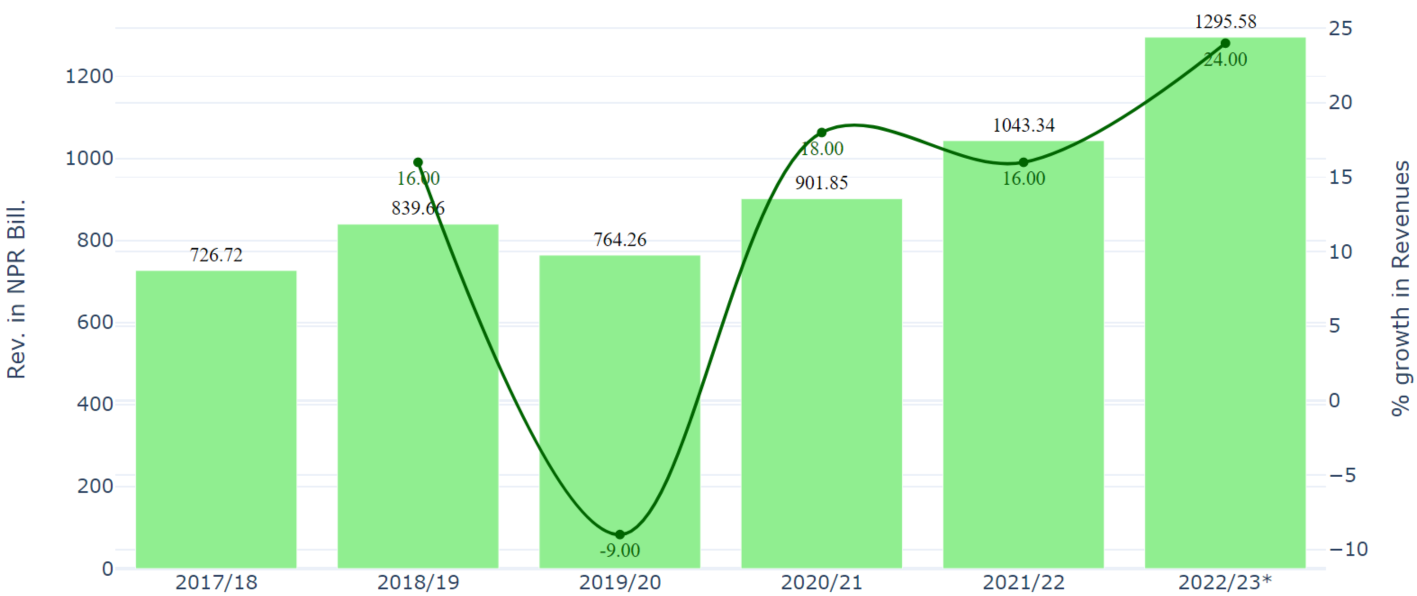


Figure 3: Revenues and rate of growth (right-axis)

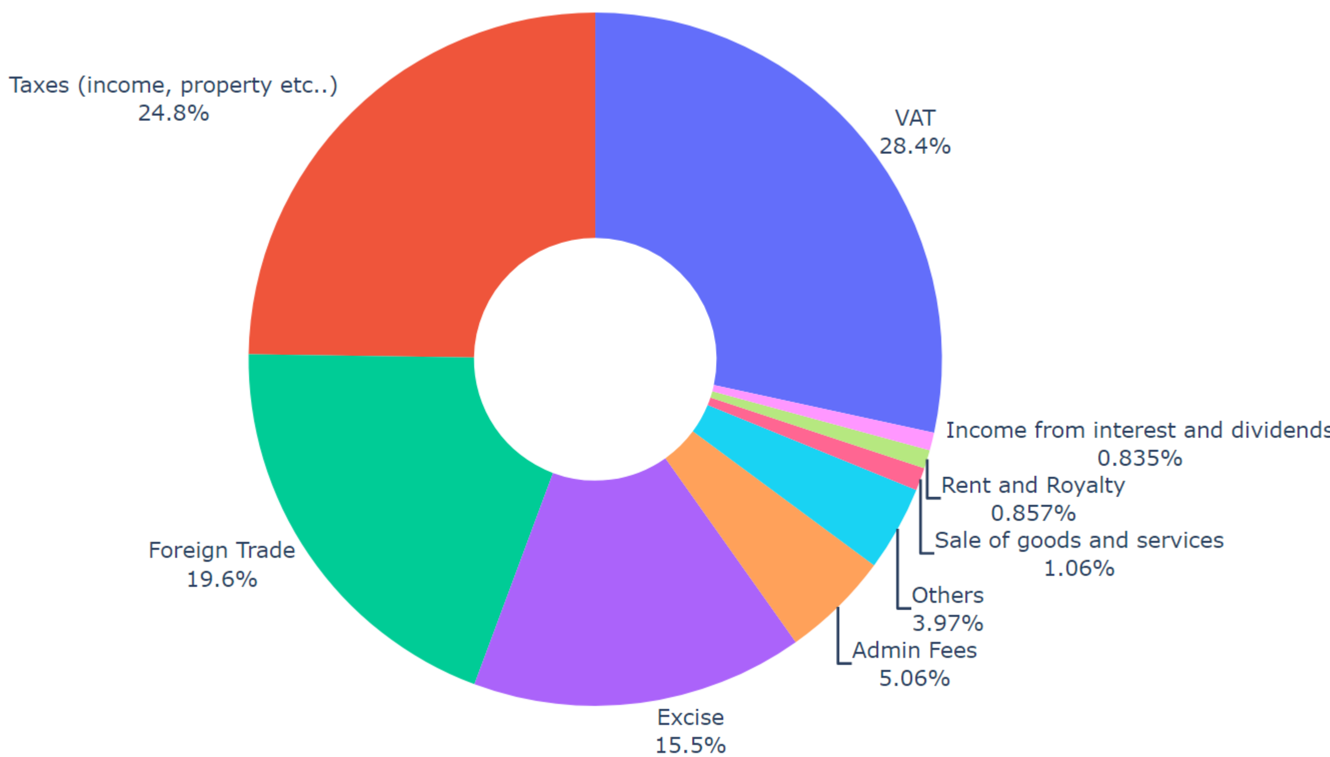


Figure 4: Composition of domestic revenues FY 2022/23*

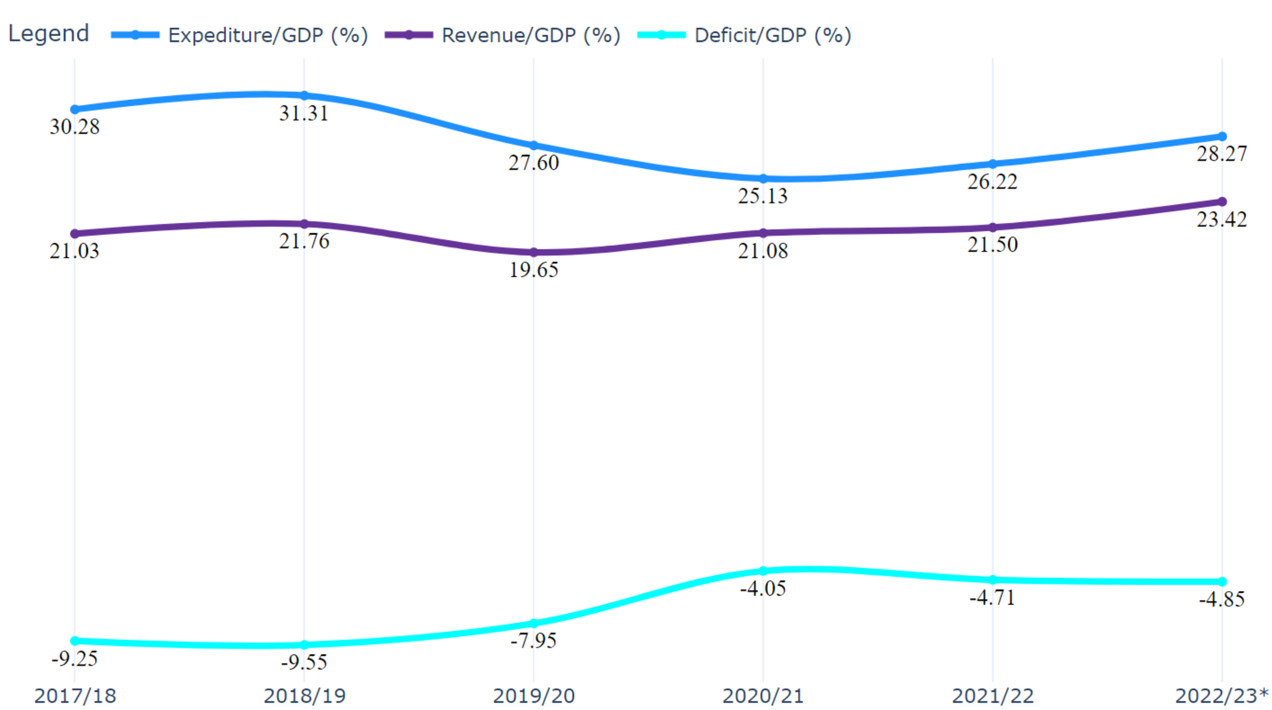


Figure 5: Expenditure, revenues and deficits as % GDP

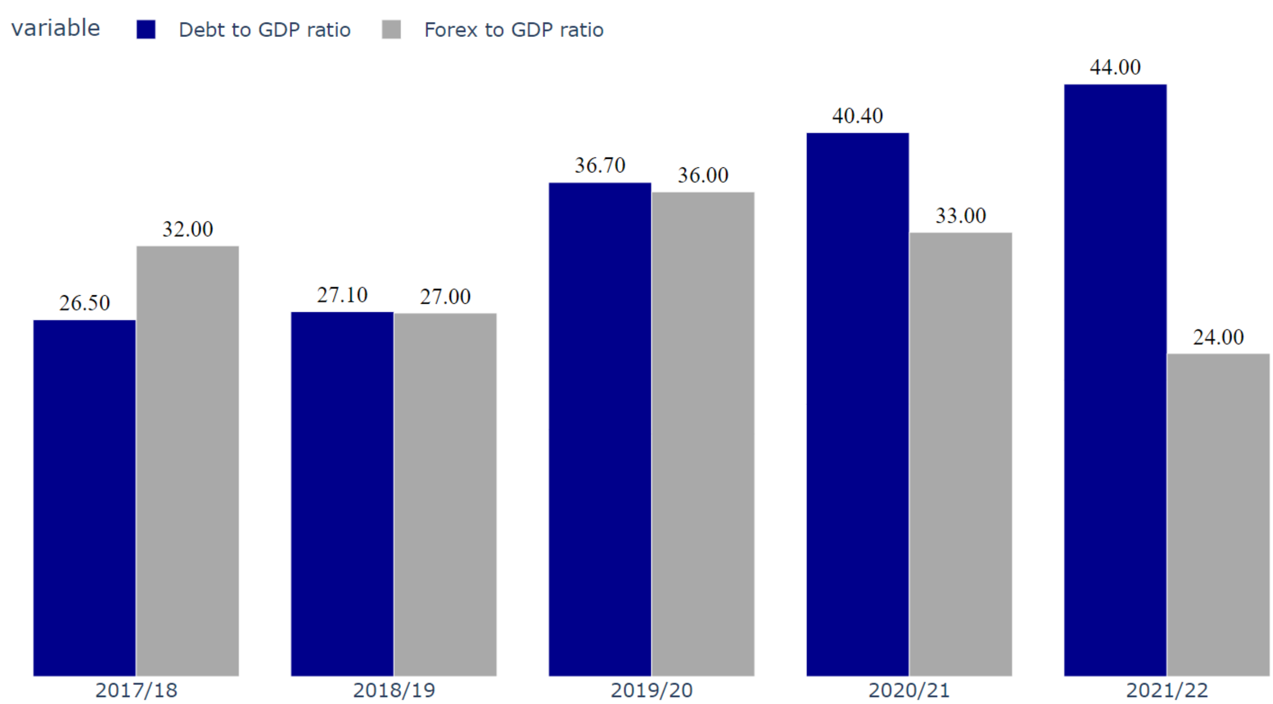


Figure 6: Gross debt and Forex reserves as % GDP

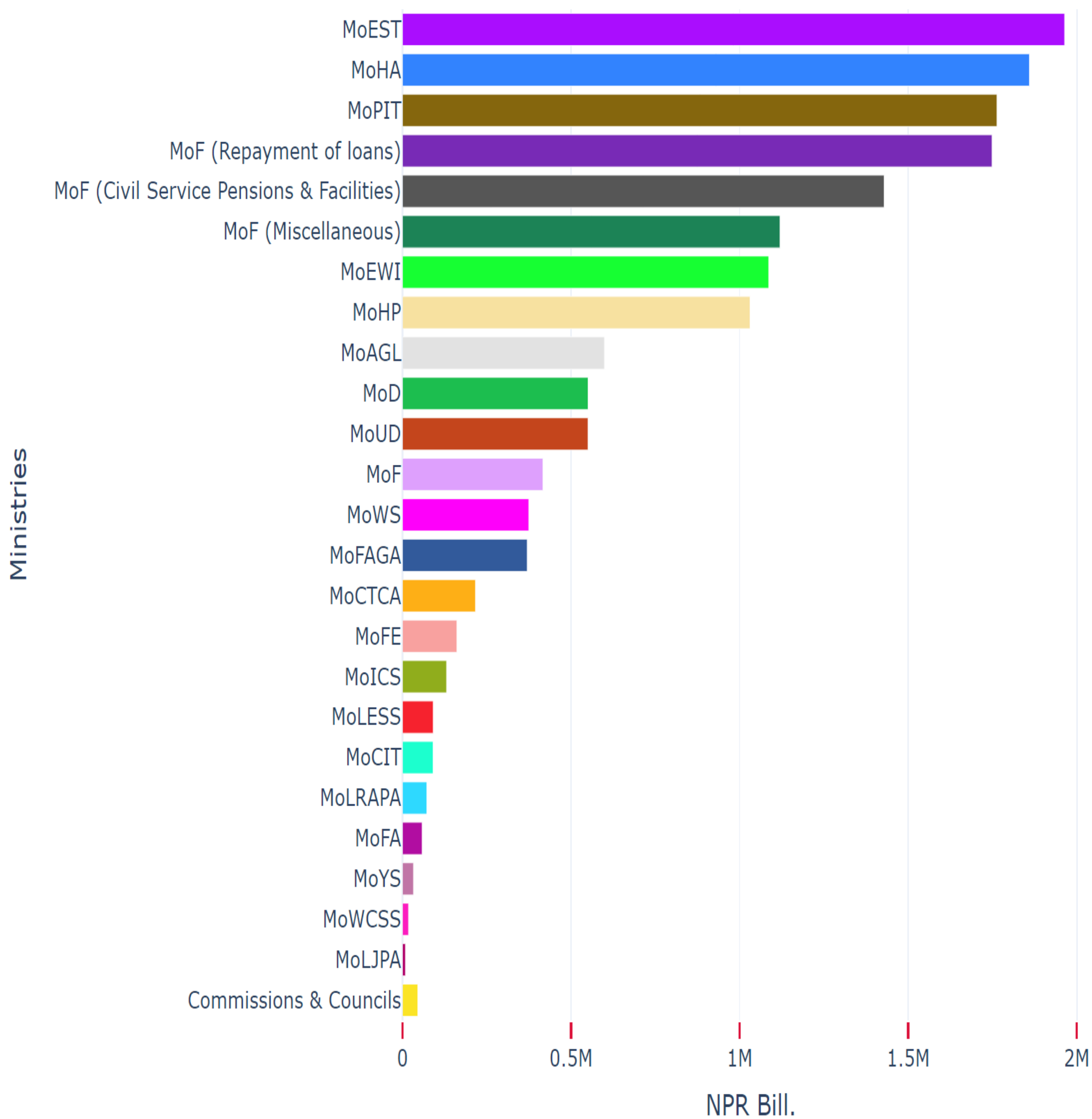


Figure 7: Ministry-wise allocation of FY 2022/23 budget

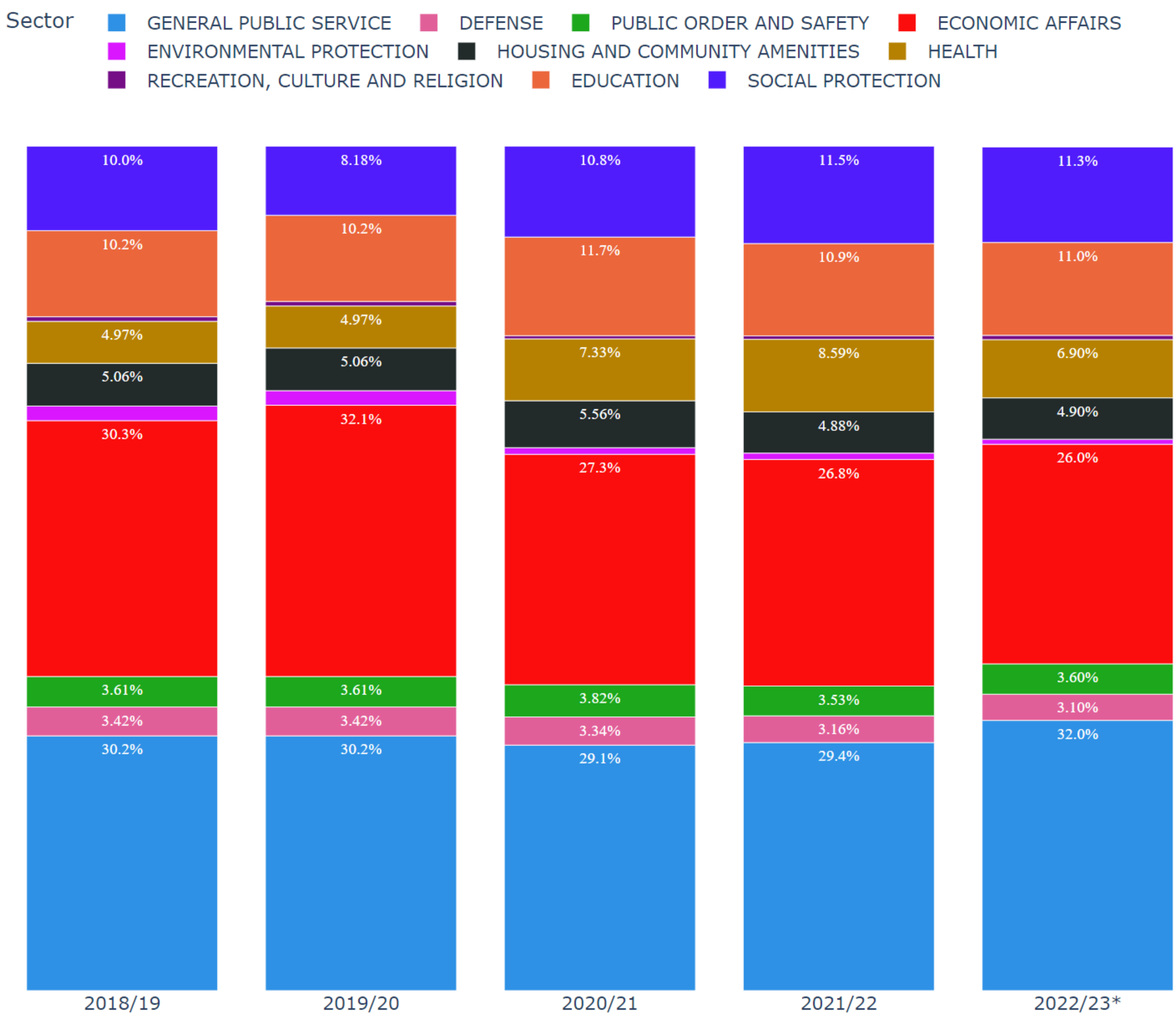


Figure 8: COFOG classification of the budget

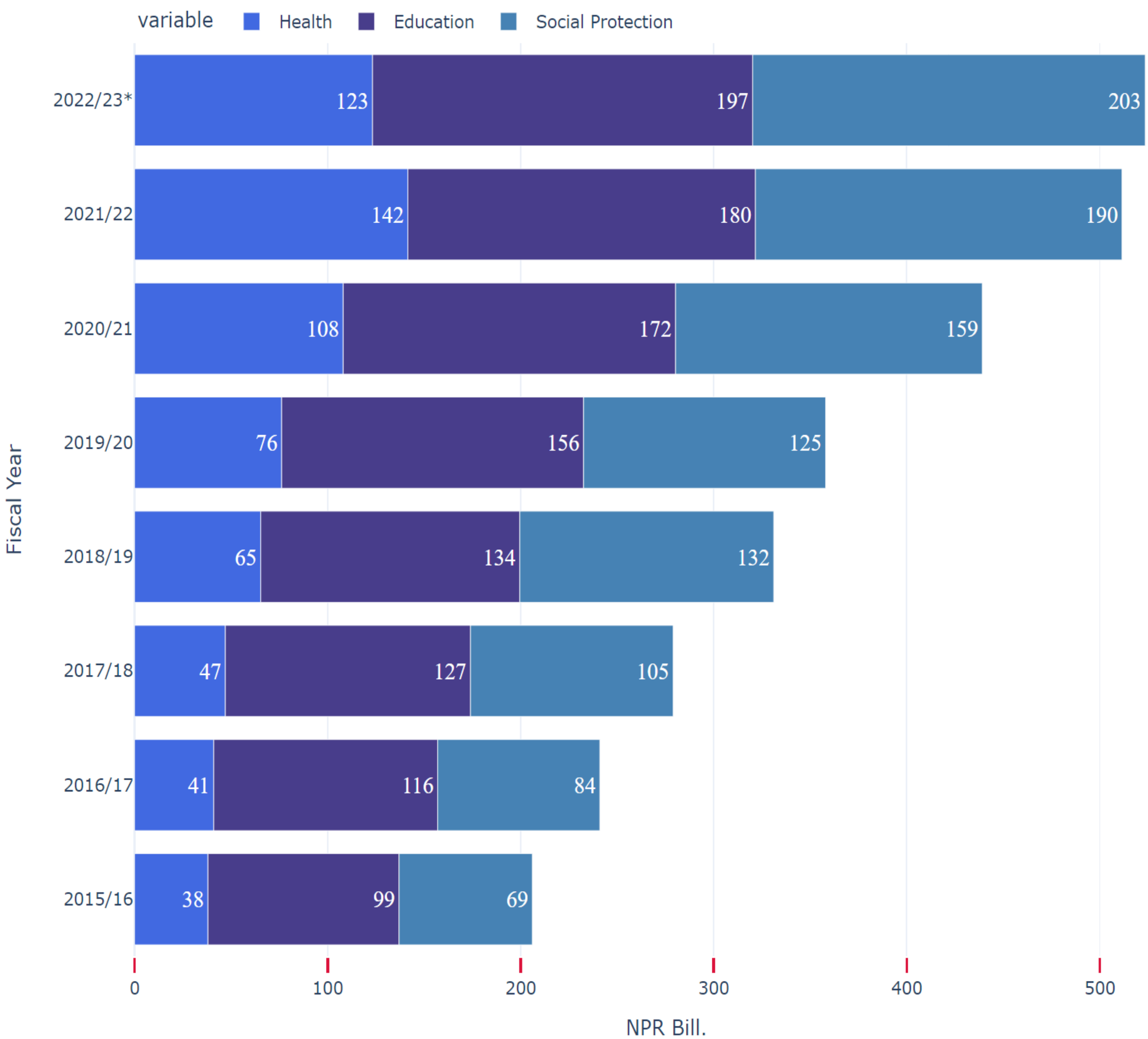


Figure 9: Social Sector Expenditure Trends

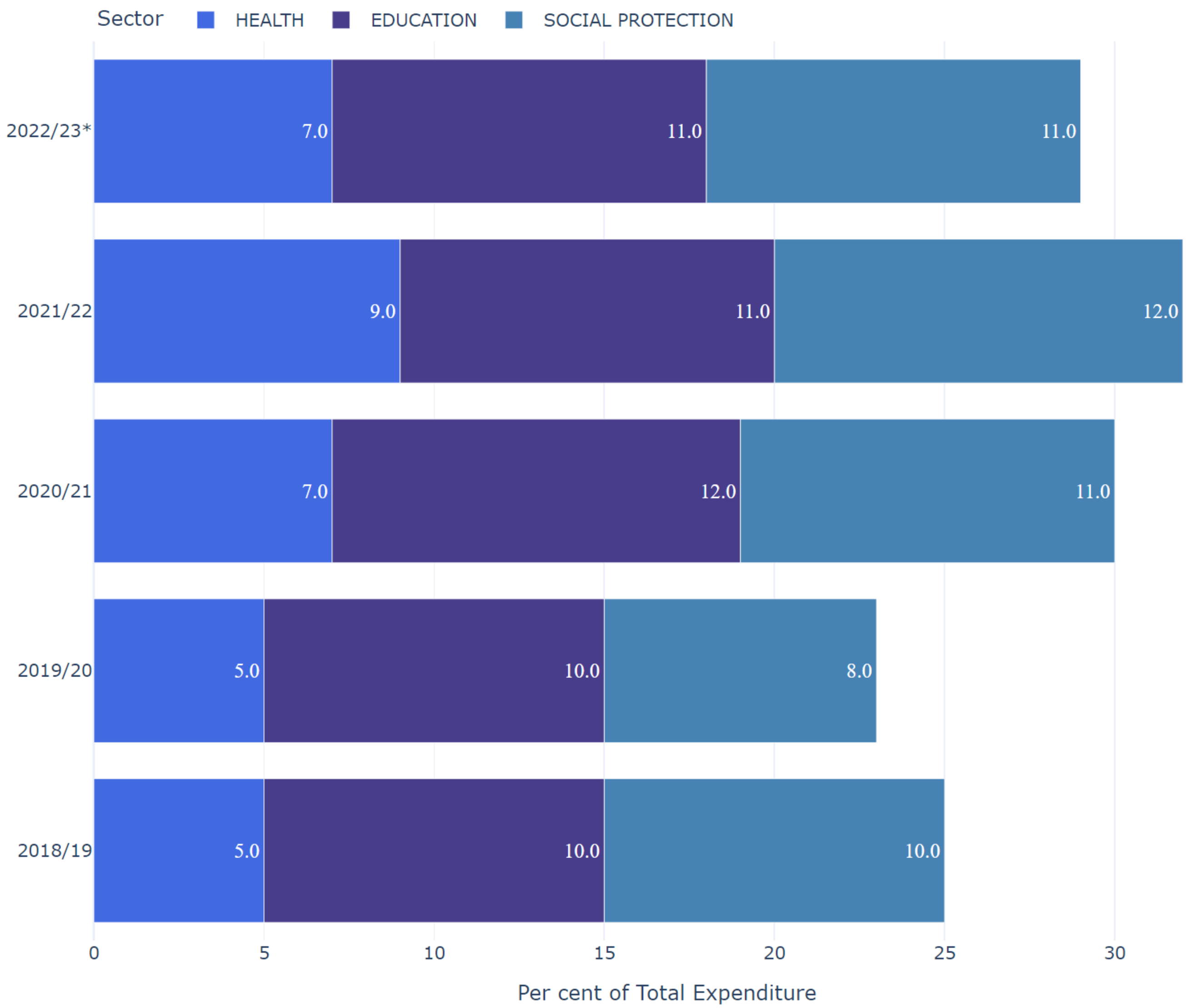


Figure 10: Social Sector as % Total Expenditures

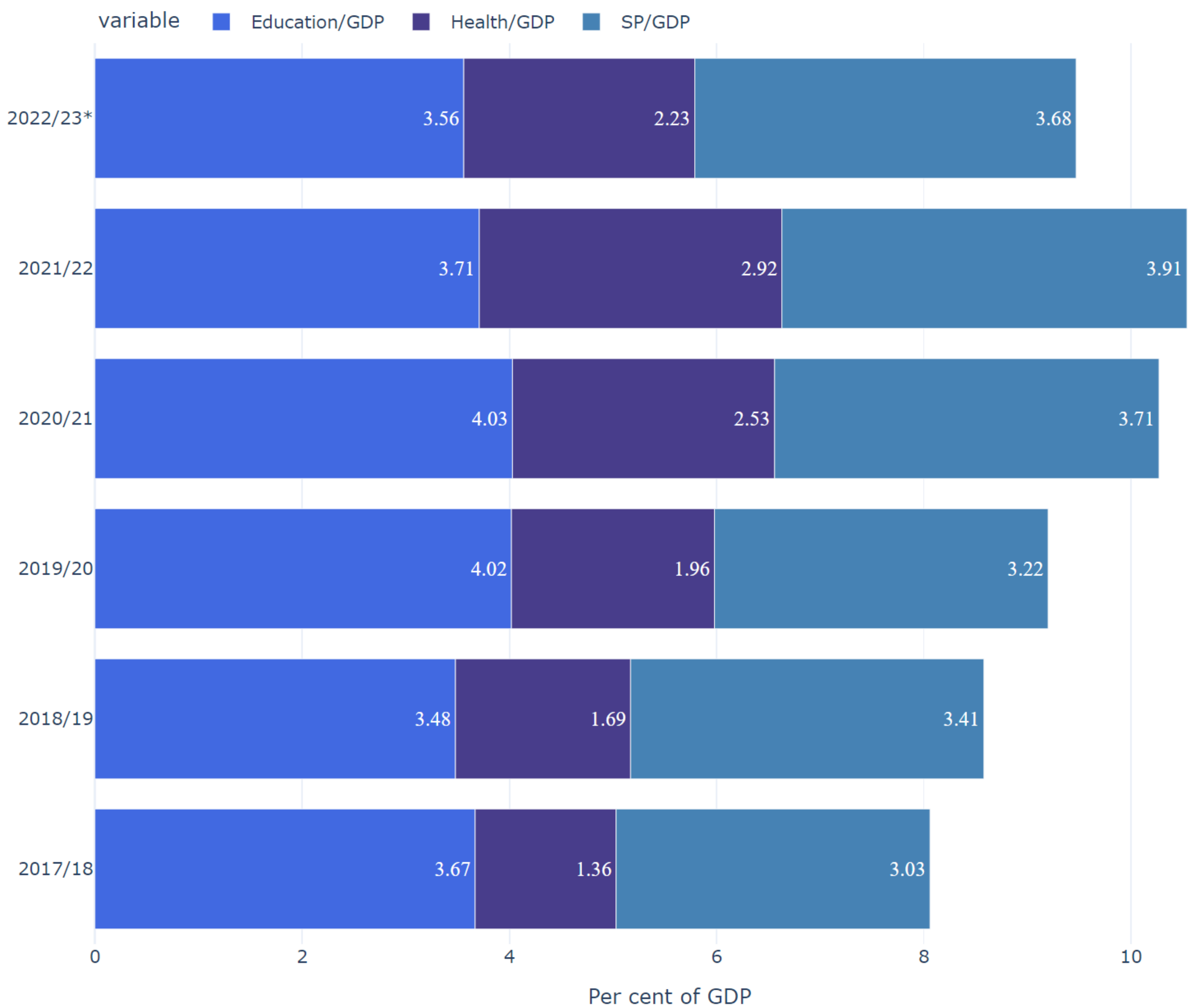


Figure 11: Social Sector as % GDP

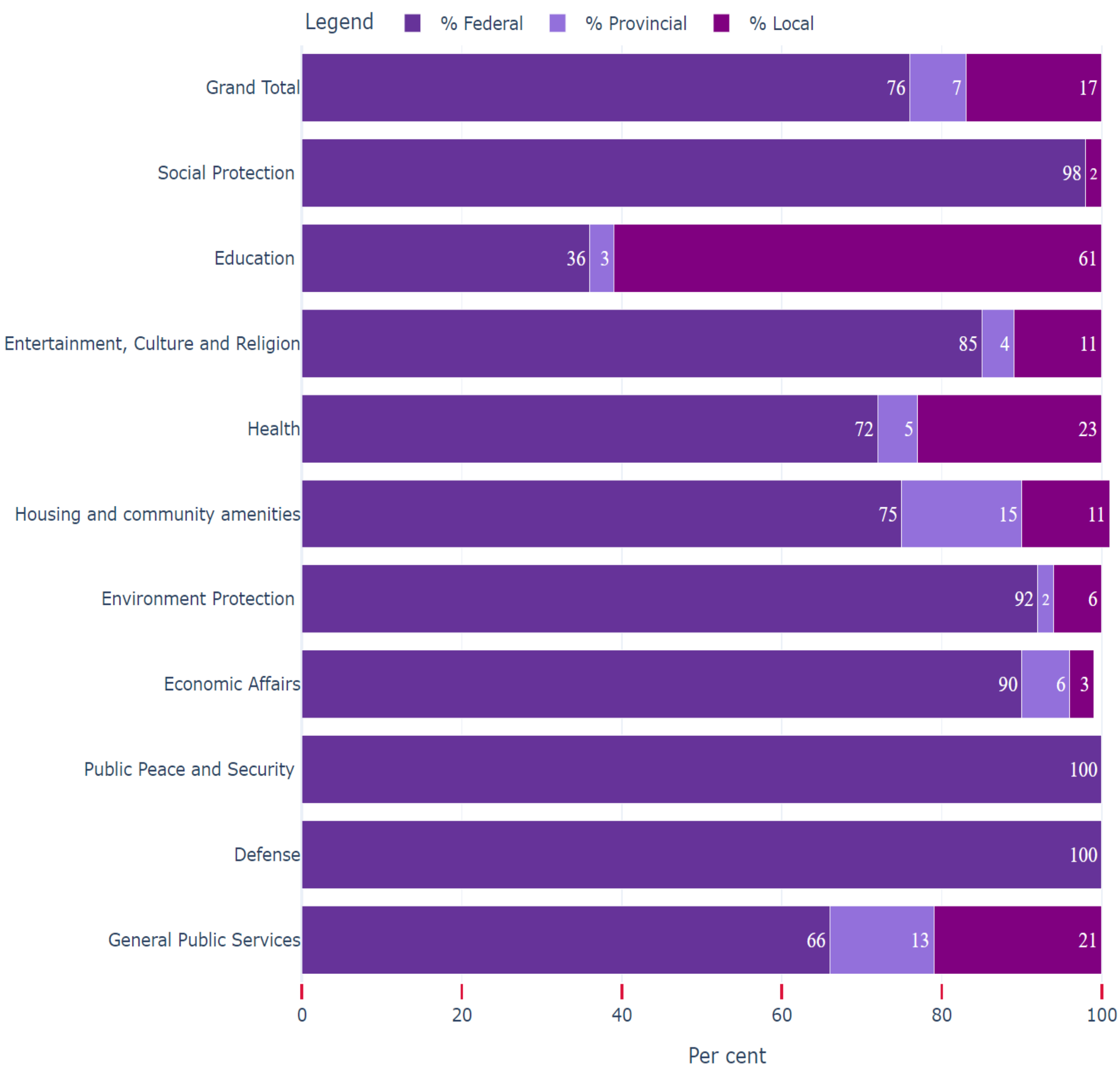


Figure 12: Federalism and the FY 2022/23 budget

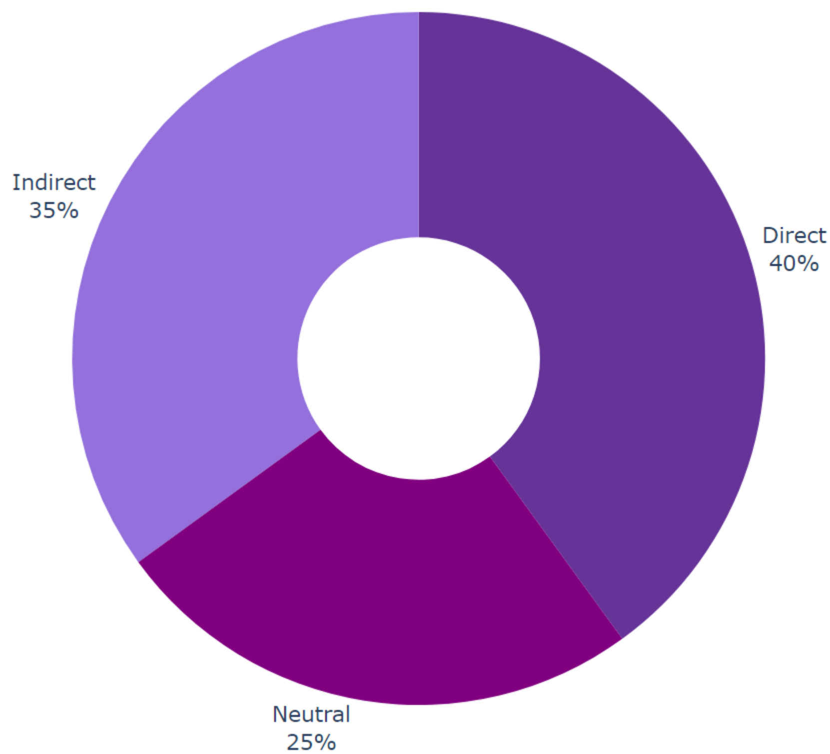


Figure 13: Gender responsiveness of the budget

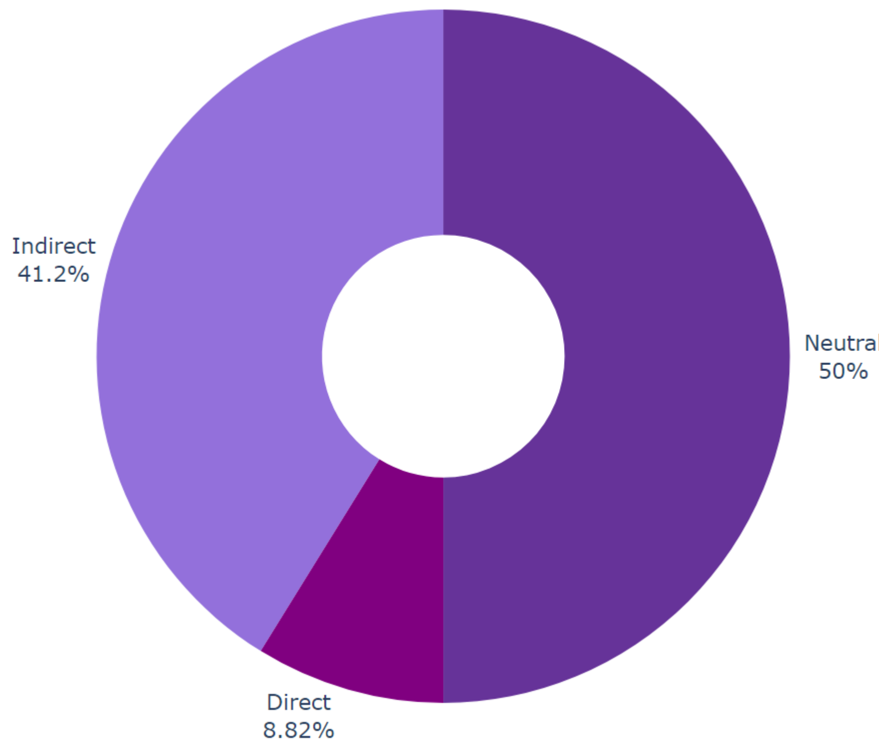


Figure 14: Climate Responsiveness of the Budget