ISSR-TPG-PR-0007/2019

Proceedings of the Interaction program on **Budget 2019**

Institute of Strategic and Socio-Economic Research (ISSR)
Pavilion Group

Kathmandu, May 31, 2019

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Despite the fact that the government analyzes its expenditure and revenue collection every year through the budget, its predictions are usually not up to the mark. There is a possibility that this year's budget, presented to the Federal Parliament as per the constitutional provision on May 29, 2019, might also make misleading predictions on the government expenditure and revenue collection. Also, what are the opportunities and challenges that the government might face while trying to achieve growth targets as mentioned in the budget in terms of physical and financial progression? The Institute of Strategic and Socio-Economic Research (ISSR) organized a talk program on May 31, 2019, to discuss these pertinent issues. This report presents the proceedings and conclusion of the discussion.

I would like to express my sincere thanks to everyone from ISSR, Pavilion Group and Khabarhub.com, along with Prakash Tiwari, assistant professor at Nepal Sanskrit University, for their efforts to prepare this report. We hope to continue to receive constructive feedbacks in the future. Thank You.

Naresh Shrestha
Member, ISSR
Chairman, Pavilion Group

TABLE OF CONTENTS

1. INTRODUCTION

Honorable Finance Minister Dr. Yuba Raj Khatiwada presented the second budget of the current government in the Parliament on May 29, 2019. The finance minister informed the Parliament that objectives of the budget presented for the fiscal year 2019-20 were: a) rapidly improving the living standard of people through fulfilment of the basic needs and fundamental rights of the citizens as enshrined in the constitution, b) ensuring rapid economic development with social justice by maximum utilization, equitable distribution of available resources, opportunities and capacities, and c) building foundation for socialism-oriented advanced and prosperous economy and transforming into a middle-income country by 2030 through economic, physical and social infrastructure development.

The government expects the economy to grow at 8.5 percent and aims to create 500,000 employment opportunities and contain inflation under 6 percent in the upcoming fiscal year. The budget speech states that the expected growth would come through the expansion of agriculture, industry and service sectors with accelerated economic and social infrastructure development, reconstruction and new construction works. The creation of jobs is expected through the expansion in agriculture-based and forestry-based business, expansion of business and industrial investment in private sector, tourism, increased access to financial services and operationalization of the public construction-focused Prime Minister Employment Program.

With an aim to analyze how realistic are the budget estimations, and the targets for growth and employment, and what are the challenges for effective implementation of the programs set in the budget, the Institute for Strategic and Socio-Economic Research (ISSR) organized a program in Kathmandu on May 31, 2019. The current report is the proceedings of the program.

1.1 THE BUDGET IN FIGURES

The size of the budget presented by the Finance Minister in the Parliament amounted to Rs 1 trillion 532 billion and 967 million. Of the total budgeted expenditure, the recurrent expenditure stood at Rs 957 billion and 101 million (62.4 percent) and the capital expenditure stood at Rs 408 billion and 6 million (26.6 percent). The remaining 11 percent of the budget i.e. Rs 167 billion and 860 million has been allocated for fiscal management. On the sources of financing, the budget plans to mobilize Rs. 981 billion and 138 million through revenue sources, Rs. 57 billion and 995 million from foreign grants, and Rs. 493 billion and 833 million from borrowings. Of the borrowings, the government plans to collect Rs. 298 billion and 833 million from foreign sources and Rs. 195 billion from internal sources.

The size of the budget for upcoming fiscal year is 16.6 percent bigger than the budgeted expenditure and 26.9 percent higher than the revised expenditure estimates for the current fiscal year. The budgeted recurrent expenditure for the upcoming fiscal year is 13.2 percent bigger than the budgeted recurrent expenditure and 22.3 percent higher than the revised recurrent expenditure estimates for the current fiscal year. The budget capital expenditure for the upcoming fiscal year is 29.9 percent bigger than the budgeted capital expenditure and 49.6 percent higher than the revised capital expenditure for the current fiscal year.

On the sources of financing, the revenue estimates for the upcoming fiscal year is 18 percent higher than the budgeted revenue estimate and 29.5 percent of the revised revenue estimate for the current fiscal year. The estimated foreign grants and foreign loan for the upcoming fiscal year are higher than the revised estimates of the current fiscal year by 24 percent and 42.1 percent respectively.

1.2 BUDGET AND RESOURCE ALLOCATION FOR PROVINCE AND LOCAL GOVERNMENT

The government has allocated 79.5 percent of the total budget for the federal government, 6.5 percent for the provincial governments and 14 percent for the local governments. The budget allocation for provincial government and local level government stood at Rs. 313 billion and 665 million. The government allocates the budget to the provincial and local level government as grants in four different types under the fiscal transfer head. Based on the formula laid down by the National Natural Resources and Fiscal Commission, such as spending needs, status of human development indicators, resource mobilization capacity and other economic, social and other inequalities among provincial and local levels, the budget has allocated equalization grants of Rs. 55.30 billion and Rs. 89.95 billion to the provincial and local levels respectively for the coming fiscal year. Under the conditional grants, Rs. 44.55 billion and Rs. 123.87 billion has been allocated to the provincial and local levels respectively. Further, the budget has allocated Rs. 10 billion as matching grants for projects to be identified and implemented by the provincial and local levels in their regions and Rs. 10 billion for Special Grants to provincial and local levels for undertaking activities and projects of a specific nature.

On the revenue sharing front, the government has used population, area, human development indicator and other development deficit indicators of the provincial and local levels as the basis for revenue sharing with provincial and local levels. A total of Rs.130.89 billion is estimated to be distributed to the provincial and local governments under revenue sharing arrangements.

1.3 SECTORAL BUDGET ALLOCATION

The government has given higher priorities to the public services, education and transport in the budget. The budget allocation in these sectors are higher when compared to other sectors. While the budget has allocated around 30 percent for general public services, 12.1 percent and 10.7 percent has been allocated for education and transportation respectively. Agriculture that contributes around 28 percent on national Gross Domestic Product (GDP) received only 5.2 percent. The budget allocation for energy, health, housing and community amenities, social protection and defense remained at 5.4 percent, 5.1 percent, 5.1 percent 4.6 percent and 3.3 percent respectively. The budget allocation in production and

SECTOR	SHARE
GENERAL PUBLIC SERVICE	29.95
DEFENCE	3.27
PUBLIC ORDER AND SAFETY	3.66
ECONOMIC AFFAIRS	35.31
ENVIRONMENTAL PROTECTION	1.75
HOUSING AND COMMUNITY AMENITIES	5.14
HEALTH	5.11
RECREATION, CULTURE AND RELIGION	0.47
EDUCATION	10.68
SOCIAL PROTECTION	4.66

construction is the lowest in the budget speech for the upcoming fiscal year.

2. PROCEEDINGS

The program was inaugurated and moderated by the acting Chairman of the ISSR Prof Dr. Govind Nepal. He welcomed the participants and highlighted the objectives of the program and asked the participants to express their views on the budget for the upcoming fiscal year. The major comments of the participants are presented hereunder.

Dr. Dadhi Adhikari, Senior Economist, ISSR

The government's plan to finance its entire capital expenditure through borrowings is one of the shortcomings of this budget. When all of the capital expenditure eyes at foreign debt and international grants for execution, I wonder, how is it sufficing the national agenda for prosperity and development?

The implementation of the budget, which is challenging, is requisite for achieving the targets set in the budget. Despite setting similar targets in the past, there are evidences that the government has not been able to meet the budgetary targets. One positive aspect in the budget is relatively realistic revenue growth target. The target of revenue collection is very much within the reach in the upcoming fiscal year. The average growth rate of revenue within 2013/014 to 2018/019 stood at 19 percent in the country. We can expect this growth to continue even this year. Probably because of the socialistic orientation of the government, I feel that the budget is some distributive in nature. Distribution, in itself is not that incorrect, but we need to be aware on how the source is managed.

Dr. Tilak Rawal, former Governor, Nepal Rastra Bank

The size of the budget is huge with Rs. 1.53 trillion. As our spending capacity is not satisfactory, the size of the budget cannot be justified without an assurance for increasing the spending capacity. In this situation, there are doubts that the government has brought big budget just for showcasing. The past records for capital spending show that the government has not been able to spend more than 40-41 percent of the proposed expenditure. The growth of capital expenditure stood at just 0.75 percent in the current fiscal year and without proper assessment the budget

plans to increase the capital spending by 50 percent. The capital budget of Rs. 408 billion seems only for showcasing. My opinion is that we should have not brought this big size budget.

This budget is distributive. Last year's budget had shown finance minister's intent for policy reforms. But this year he has given up. The finance minister tried to please all the people. There are programs to support people from pre-natal stage to elder ages. We need to assess how much support these things provide to the national economy.

At a time when it is most unlikely that the budgeted capital expenditure of Rs. 408 billion could be spent, how is it possible to achieve the growth target of 8.5 percent? The government has not explained the people on how they are going to achieve this growth. Further, the budget is silent on what policy reforms were carried out this year as compared to the previous year to make the budget implementation more effective.

I don't see that this budget would help in boosting the economic development of the country. Our agriculture is said to be dependent on monsoon but what I see is our GDP is dependent on monsoon. Monsoon raises agro production, which increases the GDP. Due to favorable monsoon, the paddy production is expected to increase by 9 percent, which could contribute significantly to the growth of the national economy. But if there is not enough rain, it would be very difficult to achieve the growth target of 8.5 percent. The inflation might not be contained under the 6 percent level due to distributive aspects of budget.

Dr. Shankar Sharma, former Vice Chairman, National Planning Commission

It is most unlikely that the growth target of 8.5 percent would be achieved. We don't have clear focus on any sector to achieve that target. Look at India – the focus of economic growth is on information technology and manufacturing sector. In Bangladesh, agricultural sector is the most prioritized sector. Other countries too have similar approaches of priority sector. In Nepal, we don't have any focused sector for achieving high economic growth.

It looks like, those who were framing the budget for 2019/20 agreed on the growth target without any calculations. Earlier, there was a practice of fixing growth target at 6 percent and now the government might have become ambitious in fixing the growth target above 8 percent.

The other issue of the budget is related with allocation efficiency. Distribution of budget in social sector such as mandatory review of salaries, perks and pension of government employees and ministers every two years, constituency development fund, subsidies in agriculture and others have led to increase the size of the budget in terms of its total outlay. This is definitely not a good sign. Since social security has been mentioned as fundamental right in the constitution, the budget allocation on social security has increased significantly, which has ultimately affected the economy.

The finance minister had worked hard in designing the development projects in the current year's fiscal budget. But it looks like he felt he has little to do and opened up while preparing this year's budget. For example, while announcing the budget last year, the finance minister had given emphasis for agricultural development and had allocated budgets accordingly. But this year, I found that the budget for agriculture and irrigation is at the same level. Province Number - 2 had 50 percent of the total irrigated land which is declining gradually. Priorities highlighted by the Nepal Planning Commission have been given less priority in the budget.

More grants are being released but there is no follow-up on how efficiently and effectively these grants are being utilized. There are around 3 thousand agencies functioning on grants at present. There is no follow-up on how these agencies are utilizing grants.

Only Rs. 200 billion was spent as capital expenditure last year and government investment stands at meagre Rs. 15 billion. The government does not have an ability to spend the budget. The Expenditure Review Commission had pointed out that the problems related to government employee is one of the major problems for lower spending capacity. Further, there are gaps in the coordination between central government and provincial government. For example, the government employees in the province are liable to the central government. And this has led to multiple cases where provincial government does not have any idea on whereabouts of its employees. Staff stay on leave for months without informing the provincial government. We need to resolve these issues and enhance the effectiveness of government spending.

There has to be a process to review the progress of the development projects and effective follow-ups for successful implementation of the plans and programs. It has been reported that the fiscal deficit is at 10 percent. This is of concern. Debt can play a role in reducing the budget deficit only if its proper utilization is ensured. High budget deficit and increased remittance inflows could exert pressure on the targeted inflation. However, the inflation could also be contained under 5 percent mainly because of inflation trends in India and China. The risk of inflation is still there.

Dr. Dilli Raj Khanal, former Member, National Planning Commission

Budget is a politicaldocument of the government and thus carries hopes and expectations of the people too. I defended the size and distributive programs of the budget way back in 1994/95 mainly because it initiated several provisions related to social security and introduced programs that helped local bodies take ownership on development activities. We should not ignore the fact that the political party that runs the government after being elected by the people, makes several promises during elections. It is the responsibility of the ruling party to fulfill those electoral promises and they do this through budgetary programs. We are talking about growth and equity, more specifically prosperity that leads to socialism. We are saying budget is distributive ignoring all these concepts.

The World Bank had also accepted that cash transfer through budgets are effective and this model was very popular in Latin American countries. The Brazilian economy, which was said to have high level of inequality, successfully implemented cash transfers by tying them with education, health and food security. Cash transfer played effective role in these economies. This shows that budget does not become ineffective just by becoming distributive in nature. We should recall that economic inequality is responsible for all the problems related to present day capitalism. The best way to deal with this menace is distribution with social justice. While announcing cash transfer policies, we should maintain fiscal discipline and give attention to stability of the economy. Another aspect of this social transfer is making it effective. We need to emphasize on building the base for economic prosperity through the social security transfers.

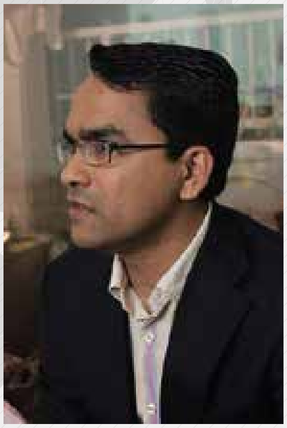
On the issue of how big the capital expenditure is, we need to know that there has been an exercise to raise the capital expenditure to the extent of 50 percent in the past. At present, this budget has increased the capital expenditure only to the extent of 27 percent and that is not a substantial rise. Coming to borrowings - both external and internal, it is 30 percent of the GDP, which is okay when we compare with other economies in the world. We don't need to panic on the size of fiscal deficit now.

The delivery of budgetary program becomes doubtful due to excessive reliance on grants and liberal distribution of one-sided cash by the government in the name of social security. Grants must reach the targeted areas. Budgetary spending has always remained short of planned spending revealing that many projects and programs remain incomplete. This needs to be corrected. The budget announcement on Jestha 15 (1st April) has not resolved this problem.

The government's announcement to track budgetary spending by using modern technique of IT is praiseworthy. There are other commendable provisions in this budget - the government has ensured for stability of the project head in development projects is the actual capital spending is above 90 percent of the budgeted level, introduced performance contract with senior government staff, vowed to hire experts to lead the development projects, focused on the result oriented-budget and provisioned the strict evaluation methods.

The budget will go into execution from Shrawan 1. There will be 45 days from the date of budget announcement to its execution. This is encouraging from the prospect of budget implementation as it helps complete the programs and projects on time. Though the government is more ambitious on infrastructure development, it has a challenge ahead to spend the proposed money efficiently. One more aspect is related with budgetary provisions addressing the federal structure. There are complaints regarding it and the government must address it.

Dr. Biswo Poudel, Economist, Kathmandu University



Let us talk about the size of the budget first. We had proposed for an increment of government spending by 10 percent. The budget is big, and we don't have resources to effectively spend the budget.

Today, if we plan for an expressway all our resources get concentrated in the project. We attempted to build Butwal-Hetauda transmission line with Nepali resources, but we couldn't. We tried to hire foreigner, but the cost was 80 thousand US Dollar per month. The problem is we don't have sufficient human resources, and at the same time cannot afford paying the foreigner too. It looks like, we have a capacity to build small projects with couple of bulldozers but cannot handle big projects. We could not even build Kathmandu airport, let us first complete a two-kilometer tunnel-way and then talk about extending our capacity.

The problem also lies with financial austerity. The issue of providing funds for the member of parliaments and elected representatives is entirely a philosophical issue. This was not practiced even during the Panchayat era. There is no provision to provide salary to the politicians in US. It is not justified to pay salary to those who come into politics for people's service.

This government aims at mobilizing Rs. 981 billion from revenue. And interestingly, Rs. 957 billion of the amount will go to recurrent expenditure of the government. The Finance Minister claims some of this recurrent expenditure also goes for capital expending. But he has not ignored those areas where recurrent expenditure can be reduced.

After the Maoist insurgency in 1996, the Armed Police Force was formed. During the insurgency period, the number of Armed Police Force climbed to 77 thousand from 40 thousand and Army from 30 thousand to 90 thousand. Now the peace process is almost complete. Isn't it high time to discuss if we need this huge numbers of security personnel in the country.

I think we can spend only Rs. 1.4 trillion in the upcoming fiscal year. We are relying on foreign debt, but the main issue rests on our capacity to spend. We have not been able to build the fast track yet. MPs are irregular in the parliament and legislative work is being affected.

Mr. Kamalesh Kumar Agrawal, Vice President, Nepal Chamber of Commerce

The size of the budget holds less importance for us, but the sources through which it is financed is of high value. The growth target of 8.5 percent is very ambitious. Some of the existing laws and procedural hurdles could prove to be barriers in achieving the growth target. Such laws need to be amended or replaced with new laws. Without good governance, economic activities will not rise.

One of the biggest problems is the double digit interest rate in the banking sector. It is very difficult to become competitive in trade and commerce until this high interest rate continues. If most of the planned capital expenditure of Rs. 408 billion is not spent, we will face serious consequences. There will be liquidity crisis, banks will raise the interest rate further and economic activities will slow-down further. It also increases the unemployment in the country.

Government has imposed additional tariff in 22 commodities to safeguard domestic production by reducing imports. Normally government should go through the imposition of anti-dumping, safeguarding and counter-veiling duties while restricting the imports through trade barriers. The government opted to restrict the imports directly through higher taxes, showing that it is serious in safeguarding the domestic production. This is good for us. The increasing tariff might have positives but has an adverse side as well. The import duty on sugar was raised to 40 percent from 30 percent. This has resulted in illegal trade in border.

It would be quite difficult for Nepali industrialists to make payments without PAN identification. This can cause inconvenience in trade and business.

Mr. Dipendra Bahadur Chhetri, former Governor, Nepal Rastra Bank

As the constitution has envisioned a socialism-oriented economy, the government had to allocate additional funds to develop technical human resource in education and provide social security to the people in accordance with the constitution and commitments expressed by the government.

The announcement to prepare umbrella act to regulate universities is a good move. Health insurance has been started last year but has not been effective in providing free health services in the hospitals. The increase in social security allowances was as expected. The constitution development fund needs to be used effectively.

Looking at the background of the finance minister, the budget should have raised the issue of economic prosperity the most. But that did not happen. The budget was termed as political and economic document. But it is purely a political document because of the disbursement of Rs 60 million on local infrastructure development program from the center. The budget is not positive in implementing in the country. The budget provisioned for operating environment-friendly vehicle at the local body, which is against the spirit of federalism. If conducive environment is created in all 761 governments for public spending, the budget implementation should not be a serious issue. However, if the current practice of spending almost 11 percent of total capital expenditure in the last week of the fiscal year, there will be difficult to implement the budget.

Dr. Bishnu Dev Pant, Executive Director, IIDS

If Nepal is looking to be a developing country by 2030, then the size of the present budget is definitely not a big one, rather it is small. We need to improve the spending capacity of the country. There are some problems. Each year more than 50 percent of the capital budget goes unspent. Government changes the Ministerial Secretaries frequently. The government institutions are weak. Universities are politicized, government service is in problem due to trade unionists. The budget does not address any of these issues. The budget implementation would be a bigger issue if, the leadership is not made accountable. Development will get affected if political leadership undermines this problem.

Political parties have to show promptness in resolving the politicization of the universities. It is so sad to note that there are 48 agricultural farms, but we import food grains worth more than Rs. 100 billion every year. Production cost in Nepal is the highest within the South Asian countries. Big size of the budget does not guarantee development of the country. We have to be serious on little things to improve implementation aspects.

Dr. Ram Sharan Mahat, former Finance Minister and Leader, Nepali Congress

Budgetary provisions fully match with the political character of the incumbent government- 'High publicity and little performance.' There are more propagandas with little performance. Budget does not even show the expected maturity. Budget speech starts with a claim of initiating financial federalism and gives credit to this year's policy and program of the government. The budget claims to have laid the foundation of prosperity through good governance, economic development, poverty elimination, promotion of private industries and others. It claims everything has been done by this government as per the policy and program of the government. The budget is full of self-praise, similar to the character of this government.

Many programs in the budget are aimed at promoting the person or the position. There are programs in name of Prime Minister and President. There are programs such Madan Bhandari high way. Even in Province 3, there is program linked with the Chief Minister for blacktopping the roads.

The budget is not in accordance with the spirit of federalism. Equalization grants have increased by Rs. 9 billion, but conditional grants have decreased by Rs. 5 billion and complementary grants have gone down by Rs. 10 billion. While overall budget has increased almost on all headings, the grants that goes down to the provinces has decreased.

This budget seems to look like the one prepared by a unitary government and not the federal one. The local government's programs such as 'child nutrition program' has been proposed in federal budget. The central government has kept some of the equalization grants funds with itself. We have to implement the constitution fully and without exception.

The constitution has given huge power to almost 37 thousand local representatives from all three levels of government at local, provincial and federal. But the Government has not made any attempt to strengthen the local governments. Municipalities and Village Councils have power, but they do not have personnel and other human resources to execute those powers. Budget has also failed to address this problem. I don't think there was any need to have 'conference hall' in each province as budget has announced. If it was so necessary to build a conference hall, the provincial government would have built themselves. We have a conference hall here in Kathmandu with a capacity of 800 people, but the Government wants to build conference hall in each province with a capacity to accommodate 2000 people. These are just the high-pitched announcements. Instead, there should have been programs on good-governance and capacity building. Economic growth comes from productivity and technological advancements. But the budget has no such programs to promote productivity and technological advancements. We are low on production and productivity in South Asia.

When the federal government has presented the annual budget of Rs. 1.53 trillion, provincial government and local governments are yet to present their budgets. The provincial governments have right to raise funds through domestic borrowings and tax mobilization. When we account all these, the budget would increase by some Rs. 300 billion. We will have an inflated budget of around 50 percent of the GDP. We don't have spending capacity and the government does not have any plan too.

Almost one-third of the budgetary programs are targeted to be funded by debt, which is more than 5 percent of the GDP. Just 4 years ago, debt to GDP ratio was around 24 percent, which has now increased to 30 percent. If the borrowing increases in the same tune the burden of debt would become higher. MPs are supposed to make laws and policies for the development of the country. Instead of lobbying with the Government for development of the local bodies, they are pocketing cash carelessly from the federal government.

Dr. Posh Raj Pandey, former Member, National Planning Commission

Budget is the economic-politico document. However, the present budget is more of politics with less economics. No money has been transferred to the provinces and local level governments. Last year, the government had transferred almost 33 percent of the budget on grants to the provinces and local governments, but this year the transfer has gone down to 29 percent.

Internal debt is proposed to be 175 billion NPR. The combined-credit-capacity of all banks in the country stands at Rs. 500 billion. If the government borrows 40 percent of the debt from the banks, how will the private sectors get the required funds? The budget deficit has touched 14 percent of the GDP. It is likely to affect the trade deficit of the country. And, we are becoming dependent on foreign countries.

Budget has proposed to increase taxes on coffee, tea and chickens but Government has raised taxes on the import of apples. Why are there no taxes on fish import and many other products? We done have plans on where economic growth comes from. There is no investment in agriculture.

Prof Dr. Kushum Shakya, Head, Central Department of Economics, TU

Looking at the size of the budget, there was no need to provide funds to the MPs. If it was that necessary, why government failed in ensuring effective utilization of the funds that were provided during current financial year. Without having provisions regarding women empowerment, I do not see any chance of prosperity in the country. Most of the women are engaged in agriculture, but they have been neglected. The attractive part of the budget, according to me, is that Government has announced to complete all the projects which are yet incomplete. Budget has not paid attention on the gaps in the current fiscal year.

Dr. Bhawani P. Dhungana, President, Nepal Economic Association

We don’t have a practice of analyzing the basis for terming a budget big or small. Looking at the aspirations of the people and given the size of last year’s budget, the present budget is not big. The budget would have been much bigger in view of the scale of economic development that Nepal is aiming for. One should not argue over the size of the budget. What is more important is how the funds are spent and what effect will it have on country's economy. Revenue collection is increasing by 20 percent every year. The government plans to increase the revenue by 19 percent without changes on the tax rates. This is good. Setting up of 'Revenue Board' is a welcome step. There is no study on the burden of increased amount of social security and hike on wages and salaries in the economy. We are disappointed on the foreign investment front as the budget failed to announce specific programs to promote foreign investment.

Prof Dr. Shiv Adhikari, Economist, TU

Budget has allocated funds in many development programs and projects. It is positive that this year’s budget has not introduced new programs and aims at completing the on-going projects. To ensure fiscal discipline there has to be a revision on allocation of funds in current account heads. Disbursement of funds to provinces are the part of current account in the budget. This has increased the size of the

expenditure. Government has given more importance to tourism and agriculture. It is a positive sign.

Hon. Surendra Pandey, Former Finance Minister and Member, Federal Parliament, Nepal Communist Party

Some criticism of the budget such as it fails to address economic issues, looks like party’s manifesto are not good. The criticism is accepted because of the political inclination. The size of the budget is not big. If I were the finance minister, I would have presented the budget of Rs. 1.8 trillion. Yes, Government needs to be cautious in issues such as revenue mobilization during such big size budgets. When the allocated funds have not been spent, it is obvious that there are concerns on the increased size of the budget. The government needs to work on increasing the government expenditure. We expect the government expenditure to increase next year, mainly because of of the employee adjustments at local level. Since the government employees have already reached the local governments, there are high chances that the expenditure will now increase. The budget will be effectively implemented because number of programs run by the central government has now been transferred to the local level.

The transfer of government staff is not the only problem. It is also about giving them power and authority. Even when there is a provision to send the spending authority by the first of Shrawan, there are evidences of sending the spending authority on Chaitra. There is a problem on process too. We have to increase the capital spending even by paying directly to the projects from the Finance Ministry. While some are scared to spend because of the fear of CIAA, some spend by managing all stakeholders. There are problems in coordinating the ministries too. For instance, there are provision of tree plantation trees are cut for any projects. Now there are issues on how to start – run a development project or start tree plantation. The investment has been adversely affected by similar legal complications. I hope the single-window system for foreign investment will encourage foreign investment. Moreover, Government must not fear of borrowings but should think of enabling conducive environment for efficient utilization of borrowings.

Prof Dr. Bijaya Shrestha, Economist, TU

As a citizen of this country, it is not fair just to criticize the budget. There are positive things as well. The budget stresses on several areas such as social security, health and education. There is enough allocation in the budget. We need to make the distribution effective and efficient. Increased cash flow is good in terms of economic analysis. The constitution has guaranteed the right to social security and employment. And if the budget had failed to adhere this, we should have commented the budget as well. It was necessary to revise the salaries of the employees, as it is mandatory to adjust every two years in accordance with the inflation rate. The provision to increase the tax slab is a good move.

Hon. Krishna Prasad Dahal, President, Finance Committee, Federal Parliament

When one asks how the budget is, it depends on the nature of comments from the public too. There is huge difference on the comments on this year's budget and last year's budget. This shows, the current budget is good. There are expectations from industrialist, women, students and many others. The major issue is with the implementation. There were questions on completion of adjustment process of government employees. Now since this has been completed and we can expect for better implementation of the budgeted programs.

There was lack of coordination between agencies during the project implementation. This has been addressed through combined project package in this year's budget, which is positive. The government's initiation to revise procurement procedures and agricultural subsidy procedure, rising the tax rates of products that are harmful for people's health, promoting domestic industries are also good. It is good that the government has not introduced new projects but has aimed to complete those which are already in operation. The challenge, however, is on spending the budgeted amount.

Dr. Swarnim Wagle, former Vice Chairman, NPC

The budget is ambitious. Probably every year from the Panchayati ear, there is an analysis on issues related to the implementation of the budget. We were of a view that current year's budget was announced with a certain roadmap. There were expectations that the current year would be the year of economic base and then the economy would accelerate. There were thoughts that the government would become distribute just before the election year and run the government for another 20 years. But this year's budget tried to please all those who were unhappy last year. First of all, the followers of the party who had pledged to raise the senior citizen allowances to 5 thousand, then a salary hike of the government employees, member of parliaments too got funds. The Minister now will not bear of risk of being criticized from businessmen, MPs, government employees and party cadres. Now I fear that the budgets in the next three years would come in a similar way. The psychological effect of low revenue mobilization, domestic investment, foreign loan and economic growth is seen on the budget.

There are issues on the size of the budget too. Let us see this from different perspectives such as our capacity, mobilization of resources and need. If we discuss on our capacity, Rs 1.38 trillion could be the ideal size because we are expecting to spend Rs 1.2 trillion in the current fiscal year and can expect a natural growth of 15 percent. From the resources side we can say that the size of the budget could be ideal at Rs 1.425 trillion – 1 trillion from revenue, 200 billion from foreign loan, 175 billion from domestic borrowings and 50 billion from foreign grants. From the perspective from demands and wants, there can be an unlimited size.

There is an estimation of 8 and half percent growth. Even this year the government hoped to achieve an economic growth of 8 percent, which was baseless. It looks like we will come close to 7 percent this year. Let us look at the employment generation too. The private sectors create around 28 thousand jobs every year, governments 7 thousand. If we add another 35 thousand, then only we can create 70 thousand jobs every year. The need of the hour is to create 500 thousand jobs every year. The Prime Minister Employment programs are also ineffective.

Prof Dr. Govind Nepal, Acting Chairman, ISSR

Let us criticize the government in a positive manner. Our comments should help build the country. I request all of us to work together.

3. CONCLUSION

The government presented an expansionary budget for the fiscal year 2019/20 in the Parliament. The fiscal deficit is estimated to get widened by 22.2 percent in the upcoming fiscal year when compared to the revised estimates for fiscal deficit for the current fiscal year. While the revised estimates for fiscal deficit for the current fiscal year is Rs. 404.05 billion, the estimated fiscal deficit for the upcoming fiscal year is Rs. 493.83 billion. Increasing fiscal deficit is one of the concerns for all of us.

The Institute for Strategic and Socio-Economic Research (ISSR) organized an interaction program for a discussion on the budget estimates presented by the government in the Parliament. Most of the participants of the program expressed that the size of the budget very big, mainly due to higher estimation for the government spending. Looking at the past experience of government spending, it is most unlikely that planned expenditure would be fully spent even in the next fiscal year and there are doubts that estimated foreign grant and loan would be realized. Under these circumstances, the participants opined for a need for smaller size of the budget compared to the proposed one.

The major comment of the participants is presented hereunder.

- The government's plan to finance its entire capital expenditure through borrowings is one of the shortcomings of this budget.
- The implementation of the budget, which is challenging, is requisite for achieving the targets set in the budget.
- It is most unlikely that the growth target of 8.5 percent would be achieved.
- The Expenditure Review Commission had expressed that problems related to government employees is one of the major issues for weak spending capacity in the country. The coordination gap between the central government and provincial government has also affected the budget implementation and monitoring. This, too, has led to inefficiency in the government spending.
- As the constitution has envisioned a socialism-oriented economy, the government had to allocate additional funds to develop technical human resource in education and provide social security to the people in accordance with the constitution and commitments expressed by the government.
- The government institutions are weak. Universities are politicized, government service is in problem due to trade unionists. The budget does not address any of these issues.
- The government spending would increase in the next year, mainly because the employee adjustment process in the local level has completed. The government employees have not reached provincial and local governments, and this could help increase the spending.
- Agricultural subsidy, preparation for the revision of procurement act are some of the positive points in the budget speech. Increasing taxes on health hazardous products and promotion of domestic industry are also positives in this budget.
- People were in impression that the government would first prepare the base for rapid economic development and then go for it next year. But the budget tried to please all those who were dissatisfied with the current year's budget by distribution resources.

4. ANNEXURE

Lists of Participants

1. Dr. Dadhi Adhikari, Senior Economist, ISSR
2. Dr. Tilak Rawal, former Governor, Nepal Rastra Bank
3. Dr. Shankar Sharma, former Vice Chairman, National Planning Commission
4. Dr. Dilliraj Khanal, former Member, National Planning Commission
5. Dr. Biswo Poudel, Economist, Kathmandu University
6. Mr. Kamalesh Kumar Agrawal, Vice President, Nepal Chamber of Commerce
7. Mr. Deependra Bahadur Kshetri, former Governor, Nepal Rastra Bank
8. Dr. Bishnu Dev Pant, Executive Director, IIDS
9. Dr. Ramsharan Mahat, former Finance Minister
10. Dr. Poshraj Pandey, former Member, National Planning Commission
11. Prof Dr. Kusum Shakya, Head, Central Department of Economics, TU
12. Dr. Bhavani P. Dhungana, President, Nepal Economic Association
13. Prof Dr. Shiv Adhikari, Economist, TU
14. Mr. Surendra Pandey, Former Finance Minister
15. Prof Dr. Bijaya Shrestha, Economicst, TU
16. Hon. Krishna Prasad Dahal, President, Finance Committee, Federal Parliament
17. Dr. Swarnim Wagle, former Vice Chairman, National Planning Commission
18. Prof Dr. Govind Nepal, Acting Chairman, ISSR