

**Government of Nepal**  
**Ministry of Finance**

**Fiscal Policy Statement for FY 2024/25**

**1. Introduction:**

This Fiscal Policy Statement presents key policies and strategies adopted by the Government of Nepal (GoN) in relation to public expenditure and revenue management for the FY 2024/25. It aims to steer the economic activities towards achieving a targeted economic growth rate of 6.0 percent and achieving the overarching goal of poverty reduction. It will help to maintain economic stability by retaining consumer price inflation within 5.5 percent. The policy also focuses on strengthening overall fiscal discipline, improving allocation efficiency and enhancing fiscal sustainability.

The policy will help to improve living standard of the deprived, marginalized, and vulnerable groups in different parts of the country through inclusive economic growth policies, well-designed public expenditure framework, and a favorable environment for private sector investment. This fiscal policy statement has taken into account the broader policy directions outlined in the Sixteenth Periodic Plan (2024/25–2028/29), the Principles and Priorities of the Appropriation Bill, 2081 (2024/25), and the Medium-Term Expenditure Framework (2024/25–2026/27).

**2. Macro-Economic Situation:**

Nepal's economy has been gradually improving in recent years. The economic growth that stood at 1.95 percent in FY 2022/23 is estimated to reach at 3.87 percent in FY 2023/24, despite the contraction in the manufacturing industry and construction sector. Nepal's economic growth is slightly higher than the world average of 3.2 percent in 2024. The size of the economy is estimated to reach Rs. 5704.84 billion in FY 2023/24. Agriculture and non-agriculture sector are estimated to grow by 3.05 percent and 3.75 percent respectively. Contribution of primary, secondary and service sectors to gross domestic product (GDP) is estimated to stand at 24.6 percent, 12.5 percent and 62.9 percent respectively in FY 2023/24.

With improvement in global supply chain management and Nepal's effort towards maintaining price stability, there has been a gradual ease out in average price level. As a result, consumer price inflation has dropped to 4.61 percent in mid-April 2024, which is well below the target of 6.5 percent set by the budget of FY 2023/24. Broad money supply (M<sub>2</sub>) has increased by 7.5 percent during the first nine months of the current fiscal year.

During the first nine months of FY 2023/24, merchandise exports and imports decreased by 3.7 percent and 2.8 percent, respectively. As a result, trade deficit has improved by 2.8 percent. Likewise, remittance inflow has been increased by 19.8 percent. Balance of payments remains at its highest to date, with a surplus of Rs.365.16 billion. Gross foreign exchange reserves have reached a record high of Rs.1911.86 billion in mid-April 2024 and which is sufficient to cover the prospective import of goods and services equivalent to 12.5 months.

Revenue mobilization increased by 10.0 percent during the first ten months of FY 2023/24, which is 58.5 percent of the annual target. The government has initiated various reform measures, such as risk-based tax audits including many others. Expenditure outturn is 60.35 percent of the total appropriation, slightly higher than revenue outturns. Despite the government's efforts to speed up capital expenditure, it has not improved. During the first ten months of FY 2023/24, Capital expenditure stood at which is 37.04 percent of the appropriation.

During the first nine months of FY 2023/24, private sector credit and deposits of BFIs increased by 4.6 percent and 7.2 percent respectively. As the deposit rate is high, BFIs have sufficient liquidity. However, private sector credit growth has remained well below the expectation.

The fiscal policy is directed towards overcoming inherent challenges in the economy. It will be helpful in achieving the growth target set by the government while maintaining economic stability.

### **3. Fiscal and Debt Sustainability:**

Despite continuous effort and reform initiatives to enhance effectiveness of public expenditure and revenue mobilization, fiscal deficit has remained a challenging. Fiscal deficit increased to 5.9 percent and the primary deficit to 4.5 percent of GDP in FY 2022/23 due to weak revenue mobilization. However, it has been improving FY 2023/24.

In recent years, domestic debt has increased rapidly. As of mid-May 2024, the share of domestic and external debt is 49.4 percent and 50.6 percent of the total outstanding public debt, respectively, leading to a high debt servicing cost. Despite the increase in total debt stock, it still remains within the prudential limits. The government has never failed to repay public debt in a timely manner. However, there is a significant gap between commitments and the realization of external borrowing, mainly due to slow progress in public investment projects. The latest IMF report concludes that both external and overall debt are at low risk of debt distress, with debt burden ratios remaining below the LIC DSA thresholds over the forecast horizon.

Domestic borrowing has remained within the ceiling prescribed by the National Natural Resources and Fiscal Commission (NNRFC). During FY 2023/24, the government has a target to mobilize domestic borrowing equivalent to 5.0 percent of GDP as prescribed by the NNRFC. The government has mobilized Rs.190 billion during the first ten months of the current fiscal year. Which is approximately of 4.8 percent of GDP.

### **4. Guiding Principles and Overarching Goals of Fiscal Policy:**

**The Sixteenth Periodic Plan (FY 2024/25 to FY 2028/29):** The Sixteenth Periodic Plan is the second series of the Perspective Plan (2076–2100 BS, i.e., 2019–2044 AD), which envisions a theme of “Prosperous Nepal, Happy Nepali”. It aims to improve governance, promote social justice, and achieve prosperity by increasing production, productivity, and competitive capacity in all sectors of the economy. The Plan focuses on implementing sustainable development, internalizing gender mainstreaming, utilizing ICT, promoting environmental protection, and reducing disaster risk. It sets a target of achieving average

economic growth of 7.3 percent over the plan period and aims to reduce absolute poverty to 12.0 percent by FY 2028/29 from 20.27 percent in FY 2024/25.

#### **Fiscal policy directives in the Sixteenth Plan:**

- a. Strengthening Revenue System:** The main orientation of the sixteenth plan is shifting towards inland production-based revenue from import-based revenue. Likewise, it emphasizes the optimal use of traditional sources of revenue while exploring the new sources as well. This plan also focuses on revising and reviewing the tax and non-tax rates to make them more scientific and increasing compliance rate. It seeks to expand the revenue base of income tax and value added tax, bringing economic activities of the informal sector under the domain of taxation and by promoting digital financial transactions.
- b. Enhancing allocative and operational efficiency of public resources:** The Sixteenth Plan seeks to enhance efficiency and prudent of public resources. It aims to promote fiscal governance, and efficient and optimal use of internal resources.
- c. Intergovernmental fiscal transfers:** The sixteenth plan aims to make revenue sharing and fiscal transfers more effective to address fiscal gaps among all tiers of government. It also focuses on strengthening revenue mobilization capacity of subnational governments (SNGs) for sustainable revenue mobilization.
- d. Prudent use of public borrowings:** The sixteenth plan emphasizes prudent use of public borrowings in development projects. It has a policy of utilizing public borrowings only in the productive sectors that support economic growth and generate employment opportunities. It focuses on long-term debt sustainability by adopting short term, medium term and long-term debt mobilization strategies.

### **5. Objectives, Priorities and Strategies of FY 2024/25 Budget:**

The budget has five objectives, five priorities, five economic reform strategies and five leading economic sectors as follows:

**Objectives:** (a) to increase production, productivity and employment; (b) to increase investment and accelerate economic activities by boosting up the morale of private sector; (c) to develop human resources; (d) to reduce economic disparities and poverty through a balanced and equitable allocation of resources (e) to make public service delivery effective.

**Priorities:** (a) economic reforms and promotion of private sector; (b) agriculture, energy, information technology, industrial growth and infrastructure development; (c) social sector development including education and health (d) inclusiveness and social protection; and (e) promotion of good governance and service delivery reforms.

**Strategies for economic reform:** FY 2024/25 Budget includes five strategies for economic reform, such as; structural reform, improving business environment, public finance system reforms, financial sector reforms, and administrative reforms.

### **6. Public expenditure and revenue policies for FY 2024/25:**

Resource allocation is based on the objectives and priorities set in the budget. The budget lays emphasis on the resource allocation for priority sectors and projects. Additionally, priority has given for budget allocation to infrastructure development, education, health,

agriculture and industry. Budget allocations are also prioritized to make service delivery more effective. A significant amount of budget is allocated as fiscal transfers to SNGs to strengthen the fiscal federalism.

**Policies related to expenditure and project management include the following:**

- (a) Emphasis on the rational use of public expenditure to make more result-oriented. Likewise, recurrent expenditure will be made more economical, and project staff will be deployed from among civil servants.
- (b) Merging or dissolve of Federal organizations on the basis of their need and rationale. Standards for building structure, size, and internal decoration will be prepared and implemented on the basis of service delivery, scope of work and workload of government offices.
- (c) Discourages of foreign visits, except for mandatory representation.
- (d) Preparation and implementation of Public Financial Management Reforms Strategy based on the third Public Expenditure and Financial Accountability (PEFA) Assessment Report, 2024.
- (e) Provision of repaying public debt utilized by public enterprises (PEs) directly through ESCROW accounts.
- (f) Selection of Project managers based on internal competition for the timely completion of development projects.
- (g) Preparation of the Action Plan for Budget Implementation by mid-July 2024, along with the necessary working procedures, standards, and guidelines by mid-August 2024.

**Revenue Policies:**

Revenue policy is proposed with a vision of reforming revenue system in a way to contribute to economic growth through economic activities and investment-friendly tax system. Some of the major provisions set forth in revenue policies include: (a) imposing equitable tax on economic transactions made through new business models and digital means, (b) protecting revenue base by formulating the revenue-related laws in line with international good practices and amendment to revenue laws, and (c) harmonizing the revenue system with the national income.

**The objectives of revenue policies include:** (a) prioritizing and promoting the expansion of economic activities, enhancing investment, domestic production and entrepreneurship by reforming tax system; (b) developing sustainable, transparent and equitable revenue system by broadening the revenue bases and protecting tax base; (c) broadening the tax bases and promoting tax compliance through taxpayer education and awareness programs; (d) controlling tax leakages by strengthening inter-agency coordination; and enhancing the efficiency and professionalism of revenue administration.

On the basis of these objectives, programs will be conducted in the areas of (a) exemption, concession, trade facilitation and investment promotion, (b) tax system reform; (c) broadening tax base and coverage (d) use of information technology; and controlling tax leakages.

**Foreign Aid Mobilization:** A new International Development Assistance Policy will be introduced on the basis of changing context of international scenario and experiences so far. Foreign assistance will be mobilized using the commercial, private, non-government

funds, along with grants and concessional loans based on blended financing. Project readiness filter will be adopted to enhance utilization capacity of development assistance.

**Domestic Borrowing:** Medium-term and long-term debt instruments will be utilized by restructuring domestic borrowing. Project specific bonds will be issued for ensuring investment.

**Fiscal Federalism:** Criteria and indicators for revenue sharing and fiscal transfers will be reviewed to make them objective, equitable, and realistic based on practices and experiences.

## **7. Fiscal Policy Stances for FY 2024/25:**

Fiscal consolidation is a long-term fiscal policy stance for Nepal. As the economy is in the phase of recovery from the subdued growth in the previous fiscal year, the fiscal policy stance for FY 2024/25 will be expansionary to boost the economy, to achieve desired goals set by the Sixteenth Periodic Plan, and to achieve the objectives of the budget for the fiscal year. Discretionary measures of the fiscal policy will be countercyclical through expenditure rationalization and proper combination of tax policies. The Public Debt Management Act, 2022 has set the limit of the external debt and the NNRFC sets the annual limit of domestic borrowing, which will be followed when designing and implementing expenditure and tax proposals for the fiscal year.

Based on these fiscal stances, the following fiscal targets are set while preparing the budget:

- (a) To maintain public expenditure sustainable through allocative efficiency and increasing expenditure outturns by enhancing implementation capacity of the ministries, keeping total expenditure outlay below 30 percent of GDP.
- (b) To increase the revenue to GDP ratio to 20 percent.
- (c) To maintain annual internal borrowing below 5.5 percent of the GDP on the recommendation of the NNRFC.

This policy stance will help to boost economy and enhance aggregate fiscal discipline, allocative efficiency, and effectiveness and efficiency of the budgetary operations by adhering to the Financial Procedures and Fiscal Responsibility Act, 2019. From an implementation perspective, the level of expenditure outturn and revenue outturn will be aligned with the budget estimate.

## 8. Economic Growth and Key Fiscal Targets of Budget for FY 2024/25:

In line with the fiscal policy stance to support medium-term economic recovery and growth, the FY2024/25 budget has set the following targets:

### Economic Growth and Inflation

- (a) 6.0 percent economic growth
- (b) 5.5 percent Consumer price inflation

### Estimate of Expenditure and Revenue:

- (a) Expenditure outlay: Rs.1860.30 billion (Including Financing)
- (b) Federal Revenues: Rs.1260.30 billion
- (c) Total federal revenues and grants: Rs.1312.63 billion
- (d) Total borrowing to finance the deficit: Rs.547.67 billion  
(Foreign loan: Rs.217.67 billion and Domestic loan: Rs.330 billion)
- (e) Fiscal transfers to SNGs: Rs.567 billion

**Fiscal Deficit and Primary Deficit:** Overall fiscal deficit and primary deficit for FY 2024/25 are estimated to 2.8 percent and 1.2 percent of GDP respectively (Annex 1). Primary deficit will be managed within a desirable level by enhancing revenue productivity, increasing efficiency of tax administration, making recurrent expenses more economical and enhancing productivity of capital spending.

## 9. Aligning Budget with Plan:

**Alignment of MTEF and Budget with the Sixteenth Periodic Plan:** The MTEF for FY 2024/25 to FY 2026/27 is prepared based on the Sixteenth Periodic Plan. The budget for FY 2024/25 is prepared on the basis of medium-term resource projections in the MTEF. The objectives and most of the priorities of the FY 2024/25 are carried out from the Sixteenth Plan. Most of the estimates of expenditure and revenue are aligned with the projections of the sixteenth plan.

**Aligning Budget with Growth Target:** The budget for FY 2024/25 is aligned with economic growth target set in the Sixteenth Plan. The budget is designed to support the GDP growth of 6.0 percent. The objectives, priorities and strategies are carried out in the budget from the Sixteenth Periodic Plan. The Resource Committee at the National Planning Commission (NPC) has recommended the same growth target and resource projections in line with the growth target set for the fiscal year. The revenue projection is made realistic and designed to support investment and economic growth. Revenue growth for FY 2024/25 is estimated to increase by 13.5 percent from the revised estimate of the current fiscal year. The tax policy is designed to enhance investment and be supportive of economic growth. The achievable revenue target is set. However, the size of the deficit is moderately high.

Nominal GDP is projected to increase by 11.5 percent to Rs. 6360.90 billion in FY 2024/25. The share of expenditure, revenue and fiscal deficit as a percentage of nominal GDP is estimated to be 29.25 percent, 20.07 percent and 2.8 percent respectively in FY 2024/25.

## 10. Expenditure and Revenue Mobilization in FY 2024/25:

**Expenditure:** The total budget for FY 2024/25 has increased by 6.2 percent compared to the current budget and 21.6 percent compared to the revised estimate of the budget. Of the total allocation, the estimate for recurrent budget is 61.31 percent, capital budget is 18.94 percent and financing budget is 19.74 percent. The budget allocation for the repayment of public debt is equivalent to 16.11 percent of the budget, with an additional allocation for interest payment at 5.54 percent of the budget. The GoN has allocated Rs.402.85 billion for debt servicing which is 21.65 percent of the budget for FY 2024/25.

**Revenue Mobilization:** Based on the performance of previous and current fiscal years, the GoN has set a more realistic revenue target for FY 2024/25. The revenue target has been reduced by 0.23 percent to Rs.1419.30 billion in FY 2024/25 compared to the revenue target of the current fiscal year. This revenue target set by the GoN for FY 2024/25 is higher by 13.22 percent compared to the revised estimate of the current budget. Of the total revenue, federal revenue is Rs.1260.30 billion (88.8 percent) and revenue sharing to SNGs is Rs. 159.0 billion (11.2 percent). The federal revenue target set by the GoN in FY 2024/25 is 110.5 percent of the recurrent budget, indicating that it is sufficient to cover the recurrent expenditure. Similarly, the target for revenue and foreign grants for FY 2024/25 has been reduced by 0.06 percent to Rs.1471.63 billion compared to target set by the current budget. Of the total revenue target for FY 2024/25, 7.12 percent of the total revenue is estimated to be mobilized through change in tax policy and administrative reforms.

**Revenue Reform Initiatives:** Some of the revenue reform initiatives include reducing customs and excise duties on industrial raw materials, lowering income tax on interest payments of loans obtained by domestic Banks and Financial Institutions (BFIs) from foreign BFIs to attract foreign capital, formulating a new Customs Act, implementing an inland revenue mobilization strategy, a mandatory electronic billing system for taxpayers registered in VAT, introducing a performance-based management system in revenue administration, implementing e-assessment and a faceless tax audit system, reducing the list of VAT-exempt goods and services, introducing a green tax, and using Artificial Intelligence (AI) to make tax administration faceless, paperless, and contactless. Additionally, recommendations from the High Level Recommendation Committee on Tax System Reform will be gradually implemented. The GoN will also support SNGs to increase their internal revenue.

The implementation of new revenue policies and programs proposed in the budget will help expand the revenue base and coverage of revenue. The mobilization of internal revenue will be strengthened by increasing economic activities and establishing investment-friendly tax system. The new initiatives chosen in the budget for 2024/25 will have the following impacts:

- (a) Reduction in customs and excise duties levied on industrial raw materials and reduction in income tax on interest payment of loan obtained by domestic BFIs from foreign BFIs will support investment. In the short term, this provision might negatively affect customs revenue collection, but over the time, it will expand the revenue base.
- (b) Formulation of a new Customs Act will enhance transparency in customs administration;

- (c) Developing an Inland Revenue Mobilization Strategy will provide a structured method for generating inland revenue, thereby increasing predictability within the tax system.
- (d) Implementation of a mandatory electronic billing system for taxpayers registered in VAT will enhance the catch-up effects of VAT;
- (e) Performance-based revenue administration, to help revenue collection, will enhance the efficiency and professionalism of the tax administration through rewards;
- (f) The integration of e-assessment and faceless tax audit system will enhance transparency and fairness in tax administration to the fullest extent.
- (g) Streamlining the list of VAT-exempted goods and services will expand its scope and bolster the tax base.
- (h) Implementing a green tax will aid in both environmental conservation and revenue generation.
- (i) The use of AI in the tax system will make tax administration faceless, paperless and contactless, enhance efficiency and governance.
- (j) Improving coordination between agencies will assist in combating tax evasion.
- (k) Executing the recommendations of the High-Level Tax System Reforms Committee will facilitate long-term reform in the tax system.
- (l) Backing efforts to bolster revenue mobilization capabilities at the provincial and local levels will improve the sustainability of public finances in subnational governments.

**Borrowing:** To cover the deficit budget for FY 2024/25, GoN plans to borrow a total of Rs.547.67 billion. This includes Rs.217.67 billion from external sources and Rs.330 billion domestically. These amounts represent 11.7 percent and 17.74 percent, respectively, of the total budget. Compared to the estimate of FY 2023/24, these figures have increased by 2.3 percent and 37.5 percent, respectively. The GoN intends to encourage productive use of external borrowing while ensuring that domestic borrowing remains below 5.5 percent of GDP, in line with the recommendation of the NNRFC. Debt sustainability will be prioritized, aiming for sustainable public finances through enhancing revenue productivity and rationalizing public expenditure.

**Fiscal Deficit and its Alignment with MTDS:** The fiscal deficit for FY 2024/25 is moderately higher than the current fiscal year. It is estimated to reach 2.8 percent of the GDP. The fiscal deficit aligns with the Medium-Term Debt Management Strategy (FY 2023/24–FY 2025/26), which aims to keep costs and risks at prudent levels. In the case of external borrowing, the focus will be on securing long-term concessional loans, while the promotion of medium-term and long-term bond issuance will be emphasized for domestic borrowing. Although the size of domestic borrowing is slightly elevated, efforts will be made to keep it low by enhancing project implementation capacity as well as securing higher reimbursement of external borrowing. To bridge the resource gap for fulfilling the country’s development need, market-based and blended types of instruments will be explored. Debt management will adhere to guiding principles outlined in the MTDS (FY 2023/24–FY 2025/26).

To address exchange rate risks, efforts will be made to explore additional external borrowing options with low interest rates and concessional terms.

- As Nepal anticipates graduation to a developing country category, there will be a prioritization of exploring new sources and instruments.
- Domestic borrowing will be mobilized following the best practices in debt management.
- Support will be provided to SNGs to enhance the legal and institutional frameworks for debt management, in alignment with constitutional principles.

## **11. Fiscal Risks and Management:**

External risks, sluggish demand growth in the economy, natural disasters, and State-owned Enterprises (SoEs) pose potential threats to Nepal's fiscal system, both implicitly and explicitly.

Primarily, global macroeconomic risks and potential downturns may pose fiscal challenges in Nepal. Given Nepal's heavy reliance on import duties and VAT collected at customs points, a slowdown in imports could impede revenue targets.

Secondly, as Nepal is prone to high risks of natural disasters such as floods and landslides, these events could strain the treasury.

Thirdly, if private sector credit growth falls short of expectations, it could hinder both economic expansion and revenue collection.

Fourthly, the financial burden from State-Owned Enterprises (SoEs), stemming from inefficiencies and losses, presents fiscal risks to the treasury. Additionally, the government's guarantee of Rs.34 billion on behalf of Nepal Airlines could result in contingent liabilities.

Continuous efforts will be made to identify, analyze, manage, and disclose fiscal risks. A system for managing fiscal risks will be institutionalized across all three levels of government. To achieve this, the following initiatives will be implemented:

- Improving the implementation capacity of capital investment projects will involve policy, legal, and procedural reforms, as well as merit-based selection of project staff. Performance-based system in revenue administration.
- Strengthening economic reforms and fostering an investment-friendly environment.
- Enhancing State-owned Enterprise (SoE) reforms through restructuring, Public-Private Partnerships (PPPs), and the introduction of strategic partners.
- Exploring new avenues for development assistance and borrowing.
- Regular monitoring of fiscal risks and exploring market-based approaches such as insurance for risk management.

**Annex 1: Fiscal Deficit of Federal Government, Nepal**

Description	Unit	2022/23		2023/24		2024/25
		Proposed budget	Actual outturn	Purposed budget	Revised estimate	Proposed budget
Total revenue excluding grants	Rs. in billion	1403.1	1010.7	1422.5	1276.0	1419.3
Foreign Grants	Rs. In billion	55.5	23.0	49.9	34.3	52.3
Total Revenue including grants	Rs. In billion	1458.6	1033.7	1472.5	1310.4	1471.6
Recurrent Expenditure	Rs. In billion	1346.3	1114.8	1315.7	1210.5	1299.7
Revenue Sharing	Rs. In billion	163.0	123.3	173.9	143.0	159.0
Recurrent Expenditure (Without Revenue Sharing)	Rs. In billion	1183.2	991.5	1141.8	1067.5	1140.7
Capital Expenditure	Rs. In billion	380.4	234.6	302.1	215.3	352.4
Total Expenditure	Rs. In billion	1726.6	1349.4	1617.8	1425.8	1652.0
Overall fiscal deficit	Rs. In billion	-268.0	-315.8	-145.3	-115.4	-180.4
GDP	Rs. In billion	5381.3	5348.52	5704.8	5704.84	6377.19
<b>Overall fiscal deficit</b>	<b>As percent of GDP</b>	<b>-5.0</b>	<b>-5.9</b>	<b>-2.5</b>	<b>-2.0</b>	<b>-2.8</b>
Interest payment	Rs. in billion	54.2	73.03	129.7	98.9	103.13
Expenditure excluding interest payment	Rs. in billion	1672.5	1276.4	1488.1	1326.9	1548.9
Primary deficit	Rs. in billion	-213.9	-242.7	-15.6	-16.5	-77.3
<b>Primary deficit</b>	<b>As percent of GDP</b>	<b>-4.0</b>	<b>-4.5</b>	<b>-0.3</b>	<b>-0.3</b>	<b>-1.2</b>

Source: Calculated based on the MoF and CSO data