

Nepal Budget 2083/84


FY 2026/27 — Optimal Budget Recommendation

A Multi-Source Evidence Framework Based on MoF, IMF, World Bank, ADB & Kala Legal

 MoF Economic Survey 2082/83

 IMF 7th Review ECF 2026

 World Bank April 2026 Update

 ADB Outlook April 2026

 Kala Legal Economic Outlook

Budget Ceiling Set

Rs 1.89T

NPC Ceiling

Revised Ceiling

Rs 2.15T

FM Request

Expected Final

Rs 2.1–2.2T

Today's Budget

Recommended Optimal

Rs 1.95T

This Analysis

Macroeconomic Context & Fiscal Landscape — FY 2025/26 → 2026/27

3.85%

GDP Growth
2025/26 (est.)

Rs 66T

Economy Size
(GDP nominal)

2.13%

Avg Inflation
8-month avg

Rs 1.96T

Current Year
Budget 2082/83

Rs 1.02T

Rev. Collected
(vs Rs 1.96T alloc.)

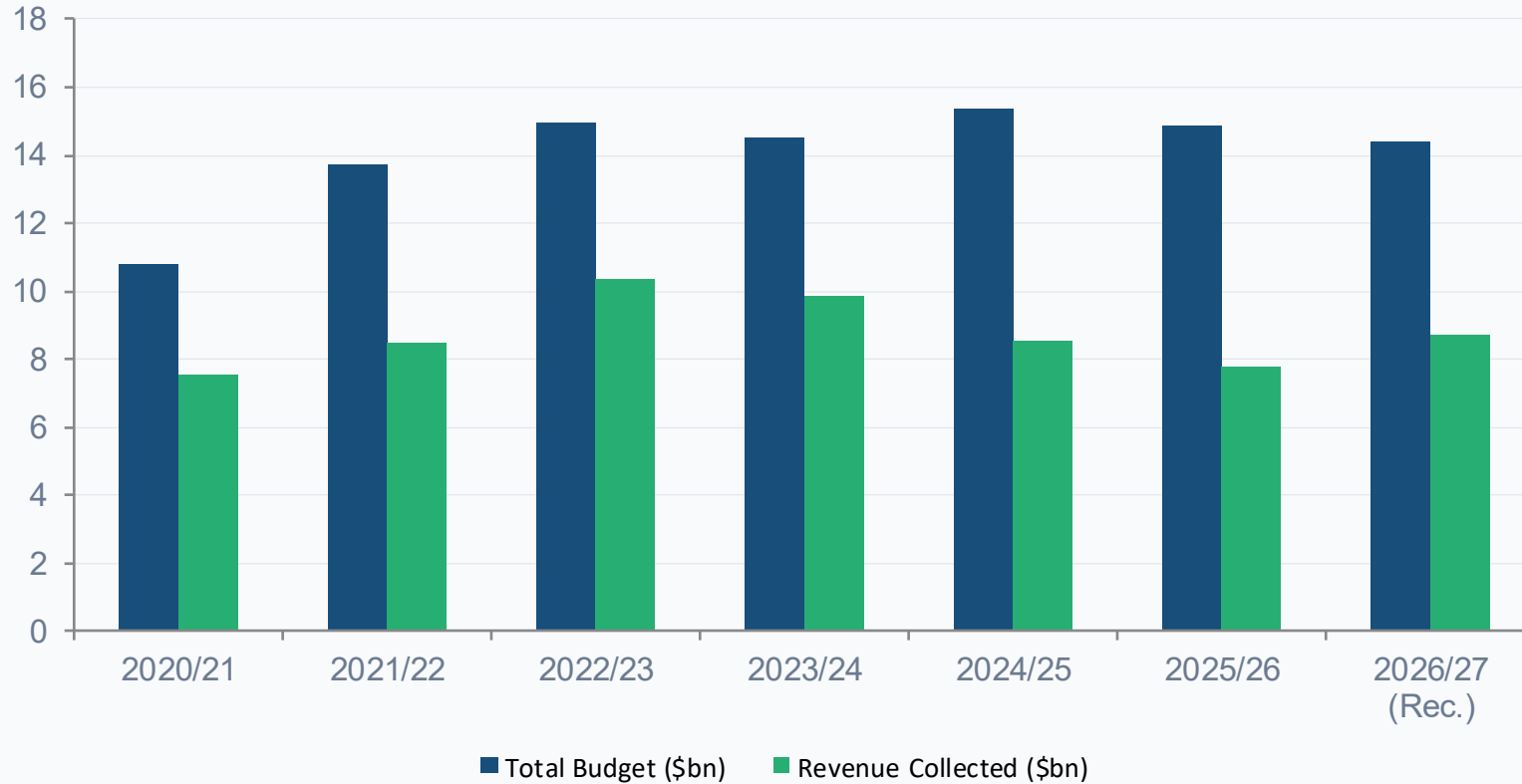
29.4%

Capital Budget
Utilisation

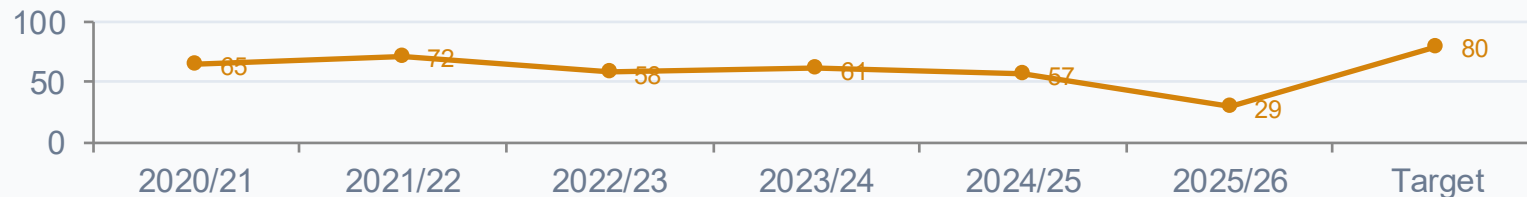
⚠ Key Challenge: Nepal's budget doubled over 10 years (Rs 1.47T→1.96T) but capital utilisation remains at ~29%. Revenue (Rs 1.02T) far below allocation (Rs 1.96T). Mandatory obligations (Rs 1.33T) exceed revenue. Treasury deficit: Rs 199B as of May 26, 2026.

Budget History & Performance Trend (2020/21–2026/27)

Budget vs Revenue (\$bn) — 2020/21 to 2026/27



Capital Budget Utilisation (%) — Crisis Level in 2025/26



Key Insights

- Budget grew from Rs 1.47T to Rs 1.96T (+33%) in 5 years while actual spending barely moved.
- 2025/26 capital utilisation crashed to 29.4% — lowest in a decade. Only Rs 1.24T spent by mid-May.
- Revenue gap massive: Rs 1.96T allocated, only Rs 1.02T collected. Deficit financed by borrowing.
- IMF recommends: fiscal deficit anchored at 3–4% of GDP; debt below 50% GDP.
- World Bank: structural reforms needed before expanding budget further.
- ADB: FY2026/27 rebound expected if political stability holds and reforms advance.
- Kala Legal: Budget credibility > Budget size. Quality execution beats quantity.

Multi-Source Budget Assessment — What Each Institution Says

Ministry of Finance (MoF / NPC)

Budget Size Rs 1.89–2.15T
Ceiling revised upward

GDP Outlook 5–6% target

Key Priorities:

- Capital exec. ≥80%
- Remove 'abanda' budget
- Revenue target: +11%
- 15% civil servant hike

⚠ Risk: Revenue gap & treasury deficit pose financing risk

IMF (7th ECF Review Feb 2026)

Budget Size Fiscal consolidation
Deficit: 3–4% of GDP

GDP Outlook 3.0–3.5% (2025/26)
Rebound 2026/27

Key Priorities:

- NRB Act reform
- BAFIA amendment
- Tax base broadening
- Reduce quasi-fiscal risks

⚠ Risk: Protest-related damage and political uncertainty weigh on investment

World Bank (April 2026 Update)

Budget Size Quality > Quantity
CPF FY2025–2031 active

GDP Outlook 3.8–4.5% medium term

Key Priorities:

- Jobs & private investment
- Infrastructure connectivity
- Federalism governance
- Resilience to climate risk

⚠ Risk: Weak private sector confidence; NPL at 5.42%; cooperative crisis

ADB (ADO April 2026)

Budget Size Investment-led growth
Hydropower & exports

GDP Outlook 4.6% FY2027 (rebound)
3.4% FY2026

Key Priorities:

- Hydropower energy exports
- Tourism revival
- Political stability
- SEZ & agro-processing

⚠ Risk: Gulf crisis threatens \$8.6B remittance base; Middle East oil prices

Kala Legal Economic Outlook — Budget Strategy Assessment

Adverse / Status Quo

Budget Size:	Rs 2.15–2.2T (Above NPC ceiling)
Fiscal Position:	Deficit: 7–8% GDP Debt: 52–55% GDP
GDP Growth:	2.3–3.5%
Assessment:	High risk without reform

Budget Characteristics:

- Large populist budget exceeds fiscal ceiling
- Revenue gap widens further
- Capital utilisation stays <35%
- FATF grey list blocks correspondent banking
- Retroactive tax kills FDI
- Debt sustainability deteriorates

Baseline / Kala Legal Recommended

Budget Size:	Rs 1.90–2.00T (Near NPC ceiling)
Fiscal Position:	Deficit: 3.5–5% GDP Debt: 44–46% GDP
GDP Growth:	4.5–5.5%
Assessment:	Achievable with reform

Budget Characteristics:

- Restrained size; quality-focused
- Capital budget: 22–25% of total
- Revenue target: Rs 1.2T (achievable)
- FATF remediation funded
- NRB Act & BAFIA reforms
- FDI incentives codified in budget

Reform / Aspirational

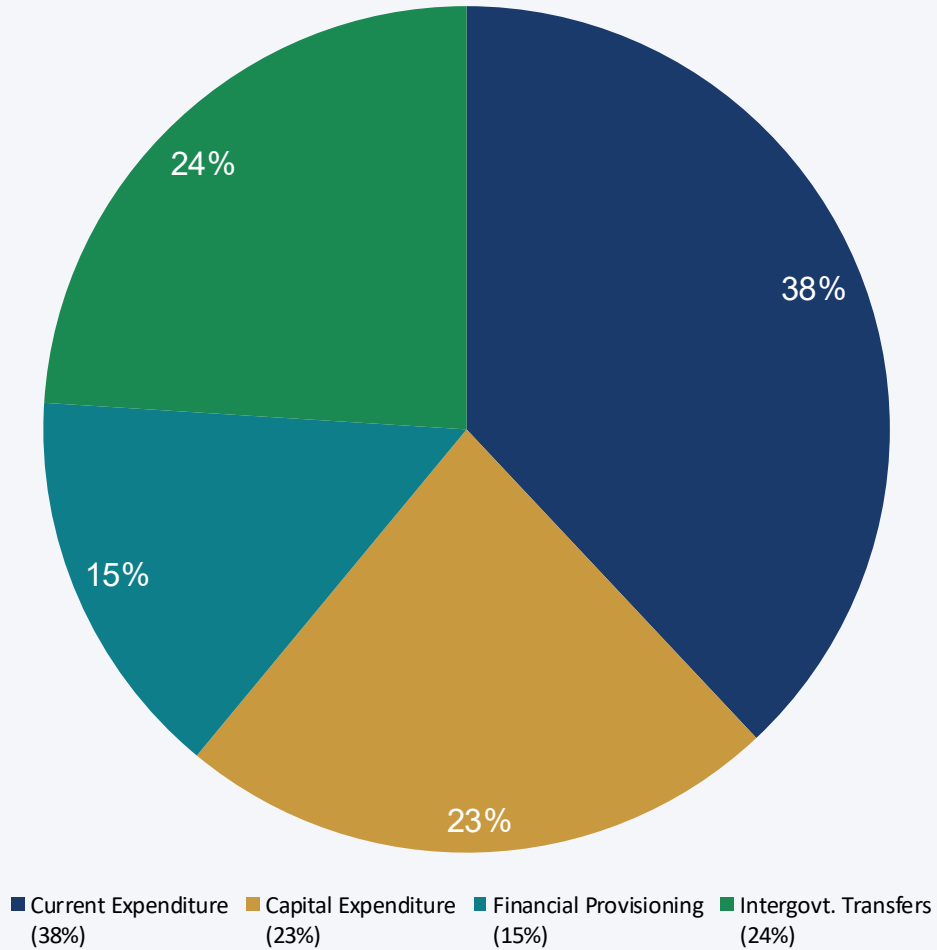
Budget Size:	Rs 1.95T with Blended Finance
Fiscal Position:	Deficit: 3.5% GDP Debt: 40–43% GDP
GDP Growth:	6.0–7.0%
Assessment:	Requires 100-point reform

Budget Characteristics:

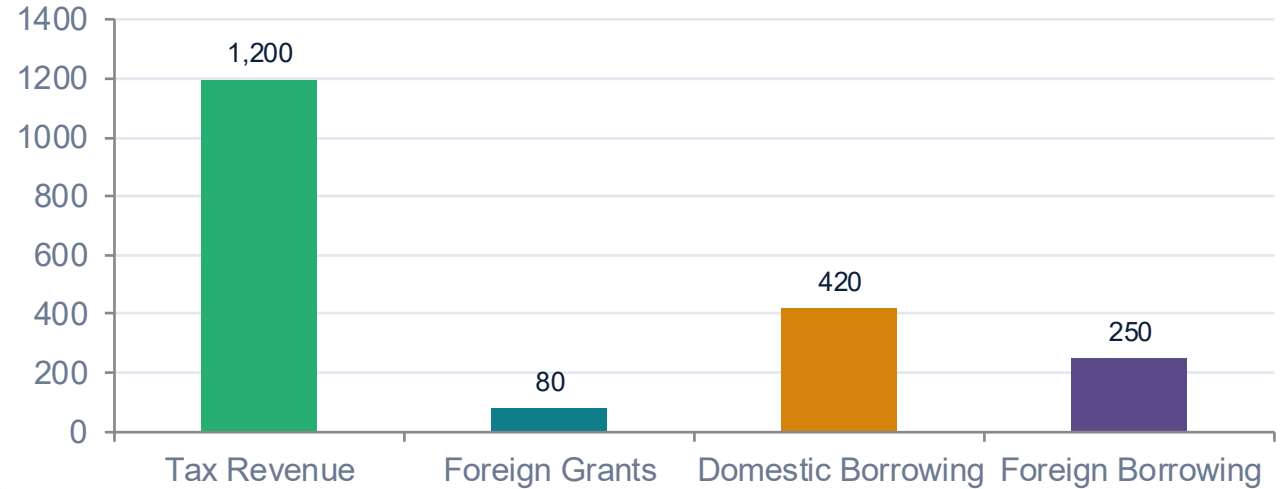
- AIF Act passed; diaspora bonds
- Capital execution ≥80%
- IT exports: USD 1B target
- Hydropower: 5,000 MW+
- PPP pipeline active
- FATF exit 2026–27

Recommended Optimal Budget FY 2026/27 — Rs 1.95 Trillion

Recommended Expenditure Mix



Recommended Revenue & Financing Mix (Rs bn)



Current Expenditure	Rs 740 bn	\$5.44B	38%	Includes Rs 1.33T mandatory obligations; restrained growth
Capital Expenditure	Rs 448 bn	\$3.29B	23%	Priority: infrastructure, hydropower, digital, roads
Financial Provisioning	Rs 292 bn	\$2.15B	15%	Debt servicing; reduce from 2025/26 level
Intergovt. Transfers	Rs 470 bn	\$3.46B	24%	Provinces + local; Rs 583bn baseline maintained
Total Budget	Rs 1,950 bn	\$14.3B	100%	~29.6% of GDP; achievable with reform execution

Recommended Sectoral Priorities & Allocations



01. Energy & Hydropower

Rs 65B

\$478M +35%

ADB/WB top priority. 5,000 MW target. NEA investment. Hydropower exports critical for current account.



02. Infrastructure & Transport

Rs 80B

\$588M +10%

Complete near-finish national pride projects. KTM expressway, road network, tunnels. PPP model.



03. IT & Digital Economy

Rs 25B

\$184M +120%

Declared strategic national industry. Digital parks, data centers, AI education. IT exports: \$800M→\$1.5B.



04. Agriculture & Food Security

Rs 55B

\$404M +8%

MSP enforcement, agro-processing zones, fertilizer reform, AgrTech. Import substitution.

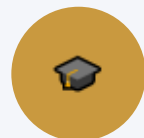


05. Health & Social Protection

Rs 70B

\$515M +5%

National health accreditation, telehealth, mental health policy. Social security: 3.76M beneficiaries.



06. Education & TVET

Rs 58B

\$426M +3%

AI-based learning, 10K schools, apprenticeship, remote work policy. Reduce skills mismatch.



07. Financial Sector Reform

Rs 15B

\$110M NEW

FATF compliance, NRB Act amendment, BAFIA reform, NPL resolution, Asset Management Company.



08. Tourism & Diaspora

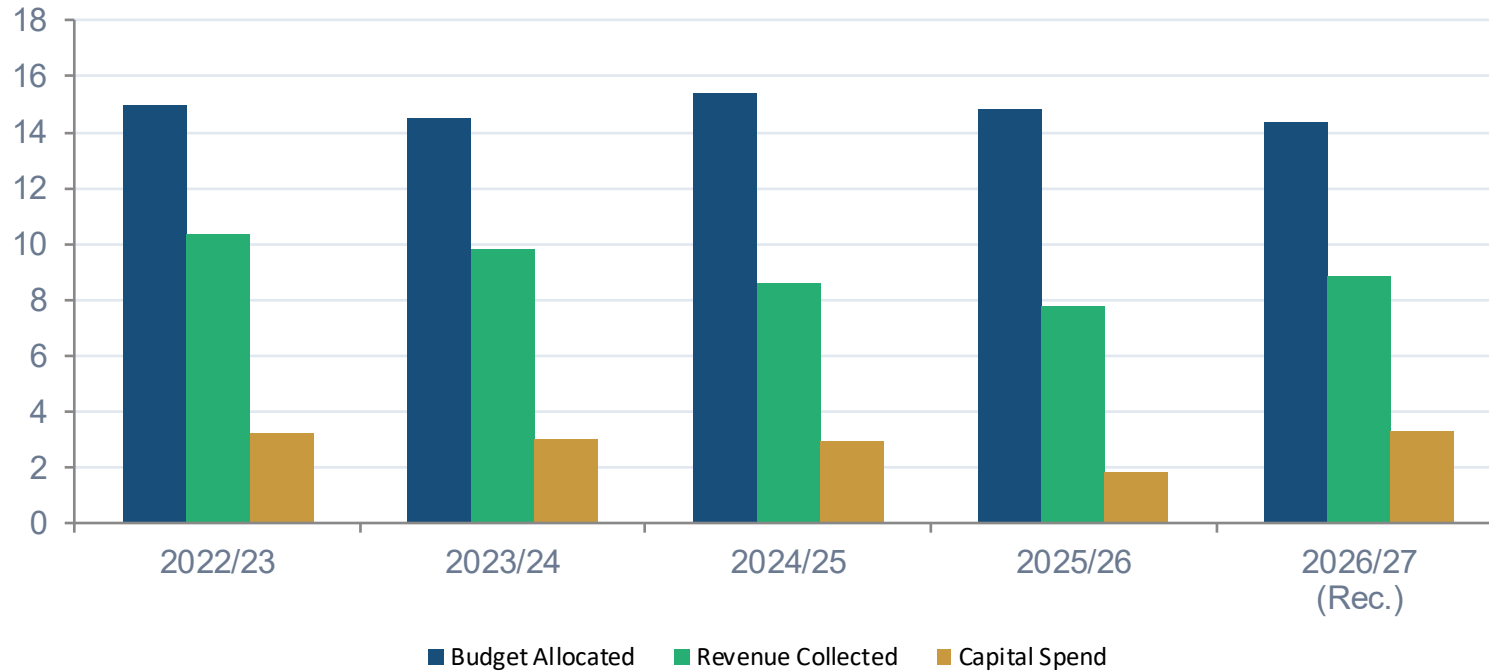
Rs 20B

\$147M +40%

Devbhumi Nepal campaign, Visit Nepal 2028, Diaspora Investment Authority, Investment Visa.

Revenue Reform Strategy & Fiscal Management Framework

Budget vs Revenue vs Capital Spending (\$bn)



IMF Fiscal Rules (Recommended)

Fiscal Deficit	≤ 3.5–4.0% of GDP	~Rs 231–264B
Public Debt	< 48% of GDP	< Rs 3.17T
Revenue Target	≥ 17.5% of GDP	Rs 1.155T
Capital Exec.	≥ 80% of budget	Rs 358B spent
Current Exp.	< 55% of total	< Rs 1.07T

Digitize Tax Collection

- Cashless economy mandate
- Automated VAT refund system
- Customs digitisation, e-clearance
- TDS system tightening
- Target: +11% revenue growth

Broaden Tax Base

- Address 30% compliance gap
- Reduce import tax dependence
- Progressive tobacco/sin taxes
- Property & capital gains reform
- Remove retroactive tax clauses

FDI & Capital Inflows

- Investment Express: 30-day approval
- Double-taxation treaties
- Clear capital repatriation rules
- Diaspora bonds issuance
- AIF Act passage — urgent

Non-Tax Revenue

- Nepal Telecom 30% share sale
- SOE monetization program
- Carbon credits (REDD+ program)
- Hydropower export earnings
- Tourism fee reform

Capital Execution Crisis & Reform Agenda — The Critical Path

29.4%

Capital Budget
Utilised (2025/26)

Rs 199B

Treasury Deficit
(May 26, 2026)

0.5–0.7pp

GDP Lost per Year
from Underexecution

64.1%

Long-Run Average
Capital Utilisation

IMMEDIATE 0–3 Months

- ✓ Abolish 'abanda' (unallocated) budget
- ✓ Launch Project Preparation Facility
- ✓ E-procurement & digital monitoring system
- ✓ Remove underperforming public entities
- ✓ FATF: intensify AML/CFT operations
- ✓ NRB Act amendments to Parliament

SHORT-TERM 3–12 Months

- ✓ Capital exec. target: 60% by Q3
- ✓ Activate PPP pipeline (5+ projects)
- ✓ FITTA, NRB Act, BAFIA passage
- ✓ Amend Section 57 Income Tax Act
- ✓ Digital parks groundbreaking (3 provinces)
- ✓ Implement Investment Express (30-day)

MEDIUM-TERM 1–3 Years

- ✓ Capital budget utilisation ≥80%
- ✓ AIF Act: diaspora bonds issued
- ✓ Corporate bond market operational
- ✓ FATF grey list exit (target 2026–27)
- ✓ IT exports: \$1B milestone
- ✓ 5,000 MW hydropower operational

LONG-TERM 3–5 Years

- ✓ \$100B economy target (FY2027)
- ✓ GDP growth: sustained 6.5–7%
- ✓ 1 million new jobs created
- ✓ FDI at 3%+ of GDP
- ✓ Net Zero 2045 roadmap underway
- ✓ LDC graduation transition complete

Budget Risk Matrix & Sensitivity Analysis

Risk Factor	Likelihood	Impact	Budget Effect	Mitigation	Level
FATF Grey List (2026)	High	Critical	-Rs 150B revenue	Fast-track AML/CFT; NRB Act reform	High
Gulf Crisis / Remittance Drop	Medium	High	-Rs 200B remittance	Diaspora bonds; AIF Act; domestic jobs	Medium
Capital Exec. Failure (<35%)	High	High	-0.7pp GDP	PPP, e-procurement, project prep facility	High
Revenue Shortfall (>15%)	High	High	-Rs 180B gap	Tax digitisation, compliance reform	High
Political Instability	Medium	High	FDI deterrence	RSP majority: stability window unique	Medium
LDC Graduation (Nov 2026)	High	Medium	Trade pref. loss	GSP+ replacement; export diversification	High
Public Debt Escalation	Medium	High	Debt: 48-52% GDP	Fiscal anchor 3-4% deficit; MTFF	Medium
External Shock (Oil/Global)	Medium	Medium	Forex volatility	Record reserves: 18.5 months buffer	Medium

Our Recommendation: Nepal Budget 2083/84

Rs 1.95 Trillion

≈ USD 14.3 Billion | ~29.5% of GDP | Deficit: ~4.0% of GDP



Right-Size the Budget

Rs 1.95T is credible — matches revenue capacity and fiscal space. Avoid PM pressure to Rs 2.2–2.4T; overspending without execution hurts credibility more than size.



Prioritize Execution Over Allocation

Capital budget at 23% (Rs 448B) with mandatory 80% utilisation target. PPP, e-procurement, project prep facility non-negotiable from Day 1.



FATF Exit as Fiscal Priority

Allocate dedicated Rs 15B for compliance, NRB reform, BAFIA. FATF exit unlocks correspondent banking, FDI, and aid flows worth far more.



IT & Digital = Multiplier Sector

Rs 25B (tripling from 2025/26) into digital parks, data centers, Data Protection Act. IT exports could hit \$1B by FY2027 creating permanent revenue stream.



Bind Fiscal Rules

IMF recommends: deficit anchor 3–4% GDP, debt < 48% GDP. Adopt Medium-Term Fiscal Framework (MTFF) with binding ceilings to restore credibility.

MoF Alignment

Close — Rs 1.95T near ceiling

IMF Alignment

✓ Deficit ≤4%, debt <48%

WB Alignment

✓ Quality > Quantity focus

ADB Alignment

✓ Hydropower & exports

Kala Legal

✓ Baseline scenario match

Latest News

Likely Rs 2.1T — Rs 150B excess