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The Problems And Prospects Of Regular And Developmental Budget Of HMG/Nepal

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INTRODUCTION

Nepal is one of the least developed country in the world where per capita income is only US$ 210 (WB 1998). Large proportion of its population (42 percent as quoted by NPC/HMG/N 1997) is below the poverty line and this proportion is increasing every year. Consequently, living standard of the general people is deteriorating every year, though large amount of money is spending from government and non-government sector to uplift the living standard of the people. This situation mainly occurs due to slow growth of GDP as compared to the rate of inflation. Thus to overcome from this problem a sound budget is essential which clearly reflects the annual plans programmes and strategies of the government for the development of the nation.

In developing country, the government invaribly assumes a development role. This includes both allocative and distributive roles. In recent years, the stabilisation role has been one of the prominent roles, and stabilisation and adjustment have remained at the top of the policy agenda and will remain throughout the 1990s.

Deficient in essential infrastructures, Nepal, which is land-locked with a difficult terrain and a population of 20 million, has given priority to building the physical infrastructure so as to spread the gains and linkages of the development strategy within the country, to integrate domestic markets and, above all, to speed up rural development. This infrastructure is also needed for diversifying the economy and its export base, which tends to be narrow and consists of a few primary and manufactured products only.

Given the prepondence of destitute people, poverty alleviation is a major concern of Nepalese people and government. The problem of poverty is seen in the broader context of rural urban imbalance, incompatiability between development intervention and environmental capacity, conflicts over the allocation of expenditures between economic and social sectors, and above all the widening gap between resources and expenditures. These imbalances need to be corrected, intendem with measures that increase the productivity capacity of the economy.

The necessity of national budget in Nepal was realised after the establishment of democracy in the country in 1951 and first annual budget

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was introduced in 1952. But the budget presented by the Finance Minister of the first elected government in 1958/59 of Nepal is considered as the first scientific budget of Nepal. After that at the end of the each fiscal year government presents its plans and programmes and strategies through budget for the coming year, with the division of budget into two parts such as regular budget and development budget. During the period of about 45 years, long history of budget in Nepal, there has not been much change in the concepts used to distinguish regular and development budget though both the regular and developmental expenditure of the government are increasing every year in absolute term.

On the one hand the average annual growth rate of development budget is less in percentage term compared to the regular budget during the past two decades, on the other, due to not being clear in the concepts of regular and development expenditure large amount of money is being spent in regular expenses such as construction of project office and quarter for the staffs, salary and allowances to the administrative staffs and so on. In this way it is difficult to estimate the actual expenses in the process of development of a country.

During the last five years (1992/93 to 1996/97) the total budget of Nepal increased by more than NRs 20 billion which is 65.6. percent more compared to the base year (1992/93). Among this increment more than NRs 13 billion was allotted to regular expenditure whereas slightly more than 7 billion was allotted to development expenditure. In percentage term during the last five years period the regular expenditure rose by 115.3 percent whereas during the same period the development budget of the government rose only by 36.2 percent compared to the base year. This indicates that on the one hand the percentage share of the development budget is declining every year compared to the regular expenditure from the total expenditure, on the other, large amount of money from development budget is spending in non-developmental activities which helps to minimise the pace of development of the country (Economic Survey 1996/97, Budget Speech 1997/98). Thus it is necessary to exclude such types of expenses from the development budget.

To the other aspect, state activities must be based on to match its capabilities. But in budgetary allocation, HMG has always been ambitious to earmark large amount for development expenditure, while in practice, majority of this amount has been transfered to current consumption outlays of public consumption resulting to low capital formation.

Similarly state has not tried to improve its capability by reinvigorating public institutions. As such, development outlays on most of the public institutions have been virtually incurred in meeting the salary and the contingency expenditures of the institutions. This behaviour too has siphoned the earmarked development expenditure towards regular expenses.

CONCEPTUAL ISSUES

Regular and Development Budget

Theoretically the regular expenditures are those expenditures appropriated and designated as the current outlays on public consumption and revenue expenditures which create no productive assets such as salaries of employees.

The development expenditure are those expenditures which are appropriated and designated to add the productive capacity or the capital stock of the country, which would raise the 'level of living' of the people expressed in indices of health, food consumption and nutrition, education, employment and condition of works, housing, social security, clothing, recreation. Thus, the development expenditures are supposed to create produtive assets like irrigation, skilled manpower, i.e. expenditure on capital account which lead to rise in total and percapita income, widely diffused among occupational groups and among regions. The process is accompanied by structural change, narrowing gaps in produtivity among sectors and regions and improved education and health resulting to an increase in substantial amount of investment and technologial progress.

The Role of Public Expenditure

Public expenditure has, from antiquity, been used as an instrument of state policy. The maintenance of civilian machinery of government providing law and order, justice, and the defence of the realm have been its time honoured objectives. Improvement in the well-being of citizens, development of the infrastructure and the promotion of structural change and development in the economy as objectives of the government expenditure policies are of relatively recent origin. Today, debate is joined over the extent to which the state should directly participate in production of goods and services. Nevertheless, it is seen to be continuing to play a prominent role in the area of promoting development and structural change. Public expenditure has been used to stimulate the entrepreneurship needed to realise development and structural change. This has been achieved through the instrument of public loans, subsidies, equity support and where appropriate, direct investment in enterprises deemed important for promoting private enterprises. Public expenditures have provided transport communications, utilities, education and health services as part of the insfrastructure to sustain development.

How far the state should become a substitute for private lending, or subsidise private enterprise or even set up public enterprises to produce marketable goods remain open to debate. The outcome of the discussion has to be viewed on an empirical rather then on a *priori* basis. The need far public expenditure will remain contingent on the capacity of private entrepreneurship to provide critical goods and services suh as merit goods

or even capital and intermediate inputs. Whether a state invest in steel mill, or a textile industry or needs to set up a power station or establish a health service will eventually depend on the capabilities of the countries entrepreneural class, its capacity to mobilise investible resources and capacity of the market to make available these services to the population. In this context, therefore, private entrepreneurship becomes a variable whose availability and capability are of considerable significance to understanding the extent and direction of public expenditure while growth and structural transformation and the institutional instruments used to bring them about remain a matter of strategy.

Global Perspective of the Role of Government Expenditure

The importance of historical circumstances in setting the levels of government expendiure is clearly shown in Table 1 which reviews the share of such expenditure in relation to the gross domestic product (GDP) of selected developed countries grouped in the Organisation for Economic Cooperation and Development (OECD). What immediately captures attention is the fact that the average for the OECD countries, as reported in Table 1, which in 1984 stood at 49.5 percent, was far ahead of the Asian developing countries, as presented in Table 2. Transfer payment in respect of public health services and social insurance programmes account for sizable component of public expenditure in the OECD countries. Notwithstanding, the dominant role within the OECD countries of private enterprise and the prevalence of market forces in the direction of economic activity, the social commitment to the welfare state, has remain largely inflexible and provided the dynamic for the growth of the public expenditure.

Table 1
General Government Total Expenditure And Government Financial Balances In OECD Countries

(Percentage of GDP)

Country	General Government Total Expenditure				General Government Financial Balances Average	
	1965	1970	1980	84/95	1980-84	1989-95
Australia	25.2	25.2	32.8	37.4	2.2	0.5
Belgium	32.3	36.5	51.0	55.4	n.a	-7.5
Canada	29.1	34.9	40.4	46.8	-4.2	-2.9
Denmark	29.9	40.2	56.2	60.9	-6.1	4.2
Finland	30.8	30.5	36.5	39.9	0.0	2.1
France	38.4	38.9	46.4	52.7	-2.1	-1.9
Germany	36.6	38.6	48.3	48.0	-2.9	-0.1
Greece	20.6	22.4	30.5	40.20	n.a	n.a
Ireland	33.1	38.6	50.9	56.3	-12.0	-10.7
Italy	34.3	34.2	46.1	57.4	11.4	-10.6
Japan	18.8	19.4	32.1	33.1	-3.5	2.6
Netherlands	n.a	46.0	57.5	61.2	-5.9	-4.5
Norway	34.2	41.0	50.7	48.8	4.5	-1.0
Portugal	20.1	21.6	25.9	n.a	-3.5	-5.0
Spain	19.6	22.2	32.3	n.a	-3.5	-4.0
Sweeden	36.1	43.7	61.6	63.5	4.4	-4.1
Turkey	20.6	21.9	n.a	4.4	n.a	-4.6
United Kingdom	36.1	39.8	45.1	47.8	-3.8	1.3
United States	27.4	31.7	33.9	37.2	-2.8	-2.8
Unweighted	29.1	33.0	43.2	49.5	-3.9	-2.4

Source: OECD, Control and Management of Government Expenditure, Paris 1987, World Development Report 1991-95 for 1989-95 figures, WB.
Note: A negative sign on net lending indicates net borrowing of a financial deficit.

Table 2
Share Of Government Expenditure In GDP Of Selected Asian Countries.

(In Percentage)

Countries	Share of Public Expenditure in GDP	
	1980/81	1989/95
Bangladesh	18.4	16.2
China	44.3	25.3
India	20/.8	22.5
Malayasia	39.7	32.3
Nepal	15.0	22.0
Pakistan	22.8	26.0
Philippines	15.8	19.2
Republic of Korea	28.7	27.8
Thailand	19.0	15.6

Source : Country Reports, Key Indicators of Developing Asian and Pacific Countries 1995, ADB. China Statistical Year Book 1995, PRC.

The government expenditure ratio (GEx/GDP) among the Asian developing countries, presented in Table 2 shows that there is no self-evident correlation between the commitment to market forces and the role of the state in devlopment. The countries with the highest GEx/GDP ratio in the region are the Republic of Korea, 27.8 percent and Malaysia, 32.3 percent. Their share may be compared with that of low income countries such as Bangladesh, 16.2 percent and Nepal 22 percent. Naturally countries such as China, which have located the bulk of their economic activity in the public sector, will have a high GEx/GDP ratio, but the countries of South Asia, with reportedly strong preference for public over private activity appear to do no better then the East and South East Asian countries as regard to public expenditures. It must, therefore, be presumed that the growth of public expenditure is a fact of life and that at best its structure rather than its volume may be modified with the change in the level of development.

Asian Perspective of Government Expenditure

Asian developing country perspectives regarding levels of government expenditure have remained varied. All developing countries assign a critical role to GEx in sustaining development. Thailand, which in fact redcued its GEx/GDP ratio from 19 percent to 15.6 percent in 1988 has committed itself to raise the level of public investment in its Seventh Five Year Plan (1991-1996) to realise seventh plan objectives of growth: structural transformation and poverty alleviation. Thiland, as China, excludes investment by public sector enterprises in estimating its total government

expenditure (TGE). If these were included, its TGE/GDP would be some what higher.

The approach to GEx on the Asian developing ountries is not to contain its growth but to expand it. The binding constraint on GEx has become the availability of resources rather then any strategy to contain demand. Those countries like India, Malaysia, Thailand, China have over the last decade, contained and contracted. Their dependence on external financing for government expenditure are conscious of the need to expand domestic public savings to underwrite their expansion of government expenditure. This means a commitment to raise public revenues while enforcing economies on public consumption expenditure to be captured within their current recurring or revenue expenditure budgets. This strategy is designed to increase the current account surplus which is then deployed to finance the rising volume of government development expenditure. In these countries, however, the size of their current surpluses has not kept pace with their demand for developmental finance. This has led to a rise in the volume of domestic or external commercial borrowing in virtually every Asian developing economies, countries listed in Table 2. The rise in both external and domestic borrowing has meant that in all countries, with the exception of China, a rising volume and share of government expenditure has been tied up in debt servicing costs. This has further constrained the capacity to generate a current account surplus and accentuated the need for further public borrowing in order to sustain the momentum of public investment expenditure.

In contrast to East, South East Asian economies and India the other countries of South Asia have become heavily dependent on ODA to finance their development budgets. For these countries the volume of government expenditure is thus a function of the commitment and disbursement of ODA. However, the disbursement of ODA is itself sensitive to the availability of domestic resources. In Nepal and in Bangladesh, this has meant that ODA has become a substitute for domestic public savings. However, in Pakistan, as in India, domestic borrowing has emerged as an important source of domestic resource mobilisation for the government.

Public expenditure in South Asian economies has remained dependent on access to ODA. The availability of ODA has been inimical to realising GEx economies in the current budget. In contrast, the East and South East Asian economies have become more conscious of the need for generating domestic public savings in order to reduce dependence on the share and cost of public borrowings.

Classification of Government Expenditure

In all the Asian developing countries the critical policy issue thus remains to enforce economies on current government expenditure so that the resources can be released for financing development expenditure. This

tends to focus attention on the issue of revenue generation and the size of the current budget. These two variables influence the size of the current surplus which can be diverted to finance development or capital expenditure. If the fiscal system of a country is characterised by high levels of tax elasticity and buoyancy then at the margin rapid economic growth will generate its own incremental revenues. Similarly capacity to realise revenues from untapped areas such as land taxation in South Asia, or to extract a higher volume of surplus generation from public enterprises through improvements in efficiency and more effectively recovering costs from users of public services, will reduce the pressure to seek economies in current government expenditure. However, the governments of Asian developing countries acknowledge a trade- off between revenue generation and expenditure economies, though all governments recognise that revenue and expenditure economies are part of common strategy for realising greater efficiency in budgetary management.

In establishing a policy and accounting distinction between current expenditure and capital or developmental expenditure, for most of the countries the dividing line in the budget is not that definite. All the countries prepare two budgets. All of them prepare a current expenditure budget which usually accommodates all annual recurring, ordinary public expenditures financed from domestic revenues. That is the reason why this budget is variously called current, recurring, ordinary or revenue budget. All governments prepare a development budget/capital budget. A similar denominational ambiguity characterises the developmental budget which is known variously as the developmental budget or the capital budget. This distinction is however not entirely definitional. In number of countries, the current and development budgets do not fully coincide with recurring and capital expenditures.

The best example of this definitional ambiguity in budget presentation is found in the defence budget of a number of countries. Most countries accept defence as an item of current expenditure even though it includes manifestly one-off capital expenditure items such as procurement of armaments. But conceptually countries treat defence expenditure as unrelated to development so that it capital components do not find their way into the development or capital budget.

Such conceptualisation poses several problems to budget analysis. It could be argued that national security is as integral to development as health and education. On the other, it could be argued that defence budgets are counter-productive to development since they tend to take away resoures which could be deployed for development. The governments of Asia, however, accept the national security as an inescapable component of their nationhood and would indeed argue that such expenditure provide the security and discipline which contributes to the establishment of conditions favourable to entrepreneurship development. If indeed

government attach such a value to defence, then there seems to be no strong logic in treating investment in the construction of a hostel for family planning workers or a college differently from investment in a building for the ministry of defence or barracks for troops. Conceptually both such expenditures involve fixed costs in contrast to salaries of family planning workers, government college teachers or defence personnel which are recurring costs that must find a place in the yearly current budget.

Similar conceptual differences prevail in defining development budgets. Many development projects incorporate recurring expenditure item into their budgets including wages for teachers, fuel and utility costs. If all national budgets were exposed to an economic classification which differentiate between recurring and capital expenditures in both their current and development budgets, similar anomalies would persist.

Role of Aid on Government Budgeting

The principal reason why the economic classification of budgets does not coincide with the categorisations used by the Ministry of Finance when budgets are prepared and presented for legislature for approval appear pragmatic. For some of the aid-dependent countries, the development budget is not just a measure of public choice but is the instrument of choice for accessing external resources. The definition of development thus comes to be tied in with the designing of projects which can access such aid. It is useful in such a situation to incorporate elements of recurring expenditure into a development project to transfer the cost from the revenue budget, financed from domestic revenues, to an aid financed development project. Aid donors have, in the past two decades, been encouraging this tendency by resort to local currency financing under the heading of reimbursable project aid (RPA). Thus in various projects with a high local currency cost component, often of a recurring nature, the donors commit aid for local disbursement against expenditures incurred by the host government in local currencies, usually for the soft component of the project such as wages and local consultancy services. There are, however, also elements of local procurement of equipment which can be covered under such reimbursable project aid.

Since all aid, even for local procurement, is obligated in foreign currency, the reimbursements to the governments are converted into local currency by sale or use of the foreign currency in local foreign exchange market. This increases the foreign exchange resources for the country which can be used to finance imports usually for current consumption. Some countries have used such aid disbursements to develop a secondary market for foreign currency where, at varying premium rates, importers in the public and private sectors can circumvent licensing procedures and freely access their foreign currency needs. This secondary market is replenished by disbursements of foreign exchange under various

commodity/programme loans which provide freely usable foreign currency in lieu of the government undertaking macroeconomic and sectoral reform. The WB/IMF structural adjustment lending for policy reforms is largely carried out under the rubric of such programme loans.

The donors justify the use of aid for local-cost financing so as to promote lending to projects focused on poverty alleviation, and human resources development. Such projects tend to have large local recurring cost component since they are software and local labour intensive projects. They often carry components which channel credit to the poor where the resultant effective demand is again largely channeled for local procurement. It has been argued by the recipient goverments as well as the donors that major constraint to both aid utilisation and socially valuable projects was the lack of local currency counterpart financing. Donors who were inclined to restructure their lending to such people centered projects were thus persuaded to direct more aid into this area rather than to concentrate it on capital and foreign currency intensive projects such as industry and infrastructure projects.

The availability of aid for financing local recurring costs have thus served as a strong inducement for prospective aid recipient government agencies to transfer items of recurrent expenditure from the revenue to the development budget where it can be funded by particular donor. This tendency has increasingly served to blur the distinction between the current and development budgets. It has furthermore reduced pressure to mobilise domestic resources and has led donors to financing current expenditures. This opportunity has thus eased the domestic resources constraint which is measurable for these countries in stagnant to declining rates of domestic savings/GDP and public revenue/GDP ratios appreciably between the two period.

Trends of Public Expenditures for the Decade of the 1980s and First Half of 19990s in Nepal

Public expenditure in Nepal grew steadily in the 1980s as well as in the first half of 1990s. With an average annual growth of 17.7 percent, it is rising faster than the gross domestic product. But the relative growth in the public sector is not seen as related to the growth of real per capita income. Instead, it seems to be affected by the foreign aid given the domestic resource constraint. Growth in the ratio of government expenditure to gross domestic product (GDP) is also influenced by prices.

Against the secular upward trend in its share of GDP, there has been some fluctuation in public expenditure growth. To some extent public expenditure growth rates seem to be linked to political events. As for examples beginning in 1979/80, where a national refrendum on partyless political system versus multiparty political system was held, public expenditures growth rates picked for four continuous years, and from

1990/91 to 1994/95 rising rapidly in excess of the average largely due to political manoeuvring, however underlying causes are often declared as economic development (Table 3.)

Table 3
Public Expenditure Growth And Its Determinants

(In Million Nepalese Rupees)

Fiscal Year	Annual Change (Percnet)	Nominal GDP	Real GDP	Per Capital Income (NRS)	Revenue Receipts	Foreign Aid		
						Grants	Loan	Total
1979/80	14.9	3470.30	18606	1309.1	1880	805.60	534.9	1340.5
80/81	17.9	4092.30	20158	1380.6	2419.2	868.9	693.30	1562.2
81/82	31.0	5361.30	20920	1394.7	2679.5	993.3	729.90	1723.2
82/83	30.2	6979.20	20297	1318.1	2841.6	1090.10	985.80	2075.9
83/84	6.6	7437.30	22262	1408.2	3409.3	876.60	1670.90	2547.5
84/85	12.9	8394.80	23630	1456.0	3916.6	923.40	1754.90	2678.3
85/86	16.7	9797.0	24645	1479.2	4644.5	1172.90	2501.10	3674.0
86/87	17.5	11513.20	25617	1497.7	5975.1	1285.10	2705.80	3990.9
87/88	22.5	14105.10	27475	1573.2	7350.4	2076.80	3815.80	5892.6
88/89	27.6	18004.90	28536	1567.9	7776.9	1680.60	5666.40	7347.0
89/90	3.7	18665.30	29500	1558.0	9287.5	1975.40	5959.00	7934.0
90/91	19.7	1359.80	59768.00	1549.0	10729.9	2164.80	6256.70	8421.50
91/92	12.2	26418.20	62531.00	1570.0	13512.7	1643.80	6816.90	8460.70
92/93	17.0	30897.70	64586.00	1630.0	15148.7	3793.60	6920.90	10714.10
93/94	8.7	33597.40	69686.00	1646.0	19580.8	2393.60	9163.60	11557.20
94/95	16.3	390.60.0	71695.00	1690.0	24575.2	3937.40	7312.20	11249.60

Source : MOF, Economic Survey 1996, HMG/N.

For example, the cut-down in public expenditure in 1983/84 was in fact a response of inflationary pressure and economic imbalances building up in the economy, largely due to liberal government spending combined agriculture performance in the early 1980s. Similarly is the case in 1993/94. It was due to the persistence of inflationary pressure in the economy that the economic show-down unleashed since the trade and transit inpasse of 1989/90 which was not responded to through increased public spending. Rather public expenditure growth was restrained as a deflationary measure to check impasse-led inflationary development, though actual expenditure was even considered as inflationary as the prevailing supply conditions.

For similar reason after the restoration of multiparty political system in 1990, public expenditure was not restored to its normal growth rate even after the resolution of the trade and transit issue, while stabilisation issue have thus been getting pronounced attentiion in public expenditure management.

Development Classification of the Nepalese Budget

The budget in Nepal is classified into regular and development categories, the latter devoted primarily to projects and programmes

directly related to output. The development budget includes all projects and programmes financed by foreign loans and grants. Any programme or project where expenditures are largely recurring, rather than in the form of investment, is also considered to be development assuming that it would have direct impact on output and produtivity. Even subsidies, teachers salaries and operation and maintenance are included under the development groupings as it is considered that these expenditures contribute to development. Though there are some anomalies in making such a distinction between regular and development expenditures, this classification broadly exhibits the level of plans and non-plan expenditures of the government.

As seen from this classification (Table 4), development expenditure increased from NRs. 2,308 million in 1979/80 to NRs. 11,896 million in 1989/90, growing annualy at an average rate of 17.2 percent and from NRs. 15979.50 million in 1990/91 to NRs. 19794.90 million in 1994/95 growing anually at an average rate of 10.49. As a percentage of GDP it ranged between 12.30 and 16.90 in the latter half of the 1980s, and 26.73 to 27.60 from 1990/91 to 1994/95. On the other hand, regular or non-plan expenditure increased faster then development expenditure in 1980s and first half of 1990s. Growing at an average rate of 19.8 percent per annum, it reached 7.9 percent of GDP in 1989/90 and 26.87 percent in 1994/95. Debt servicing is the fastest growing expenditure and forms the single largest head of regular expenditure, higher then defence expenditure, which is other major head under regular expenditure (Table 5).

Table 4
Gowth Trend Of Regular And Development Expenditures

(In Million Nepalese Rupees)

Fiscal year	Regular Expenditure	Annual Change Percent	Percentage of GDP	Development Expenditure	Annual Change Percent	Percentage of GDP	Total Expenditure
1979/1980	1162.10	11.56	18.8	2308.60	16.67	17.2	3470.70
1980/1981	1361.20	17.13		2731.10	18.30		4092.30
1981/1982	1634.40	20.07		3726.90	36.46		5361.30
1982/1983	1997.10	22.19		4962.10	33.14		6959.20
1983/1984	2273.50	13.84		5163.80	4.06		7437.30
1984/1985	2906.10	27.82		5488.70	6.29		8394.80
1985/1986	3584.00	23.33		6213.10	13.20		9797.10
1986/1987	4135.20	15.38		7378.00	18.75		11513.20
1987/1988	4677.10	13.10		9428.00	27.79		14105.10
1988/1989	5676.20	21.36		12328.70	30.77		18004.90
1989/1990	6768.80	19.25	7.9	11896.40	-3.51	21.18	18665.20
1990/1991	7570.30	13.46	13.46	15979.50	22.94	27.73	23549.00
1991/1992	9905.40	30.84	30.84	16512.80	3.33	26.40	26418.20
1992/1993	11484.10	15.93	15.93	19413.60	17.56	30.05	30897.70
1992/1994	12409.20	8.05	8.05	21188.20	9.14	30.40	33597.40
1994/1995	19265.10	55.24	55.24	19794.90	-6.57	27.60	39060.00

Source : As of the Table 3.

Table 5
Components Of Regular Government Expenditure

(In Millions Nepalese Ruppees)

Fiscal yer	Police	Annual change Percent	Defence	Annua Change Percent	Interest and Lon Repay met	Annua Change Percent	Social	Annul Change Percent	Economic	Annul Change Percent	General	Annual Change Percent	Total Service expenditure	Annual Change Percent	Miscellaneous	Annual Change Percent	Total Regular Expenditure
1979/80	111.3	32.6	223.0	16.02	217.1	40.15	184.4	5.07	105.7	6.87	209.5	-0.76	499.6	2.82	111.1	-11.26	1162.1
80/81	145.7	30.91	258.9	16.10	217.2	-0.41	210.3	14.04	110.2	4.25	206.6	-1.37	527.1	5.51	166.9	50.23	1361.2
81/82	165.4	13.52	288.9	11.59	260.3	20.40	257.1	22.28	135.1	22.60	194.8	-5.75	587.0	11.36	254.5	52.49	1634.4
1982/83	210.2	27.9	392.4	35.8	306.9	17.90	320.5	24,62	165.8	22.72	268.1	37.68	754.4	28.52	252.6	-0.75	1997.1
83/84	237.4	12.94	453.6	15.60	497.6	62.14	360.4	12.48	174.6	5.34	259.4	-3.24	794.5	5.32	199.8	-20.90	2273.5
84/85	208.0	21.31	507.8	11.95	678.1	36.27	410.6	13.91	199.4	14.19	322.9	24.48	933.0	17.42	429.6	115.02	2906.1
85/86	377.5	31.08	606.2	19.38	1019.3	50.32	493.1	20.08	241.3	21.00	381.2	18.03	1115.5	19.57	364.8	-1508	3584.0
86/87	409.1	8.37	712.3	17.50	1196.5	17.38	508.2	3.07	286.1	18.56	590.6	59.94	1384.8	24.14	389.2	6.69	4135.2
87/88	4622	12.98	768.3	7.86	1496.4	25.06	562.0	10.59	289.6	1.23	593.9	0.56	1445.5	4.38	458.9	17.9	4677.1
88/89	543.4	17.57	898.7	16.97	17206	14.98	655.8	16.69	351.4	21.32	714.5	20.31	1721.7	19.11	744.4	6178	5676.2
89/90	623.8	14.80	1076.9	19.83	2304.5	33.94	751.6	14.60	400.0	13.84	773.1	8.20	1924.6	11.79	720.4	3.77	6768.8
90/91	892.2	36.21	1151.4	12.09	2407.4	5.62	742.6	3.70	374.8	-11.56	1180.4	22.52	2297.8	9.24	1075.7	45.38	7574.1
91/92	1151.9	29.10	1489.0	29.32	3797.1	57.72	999.0	34.52	548.7	46.39	1534.3	29.98	3082.2	34.12	676.7	-3709	9905.4
92/93	1331.2	15.56	1723.6	15.75	4560.5	20.10	1269.3	27.05	586.1	6.81	1816.5	18.39	3671.9	19.14	618.1	-8.65	11484.1
93/94	1474.6	10.77	1877.4	8.92	4855.1	6.45	1352.8	6.57	605.3	3.27	1900.5	4.62	3858.6	5.08	845.3	36.75	12409.2
94/95	1584.0	7.41	2001.3	6.59	6083.3	25.29	1441.6	228.32	1353.9	123.67	2119.8	11.53	1915.3	105.13	2195.7	159.75	19265.1

Source : As of the Table 3

Note : In defence column expenditure on production of Arms and Ammunition has been excluded which has been grouped, by budget definition, as development expenditure.

This indicates that public expenditure is rising faster than resource mobilisation resulting in expanded borrowing to match such expenditure. As much of the government expenditure is used for non-commercial purposes, and even commercial financing has not generated a surplus for the government, borrowing led expenditure growth forebode a budgetary crisis.

Compared with interest and loan repayment, expenditure on defence and the police force have had lower growth rates, close to the overall growth of regular. These three items of expenditure together accounted for 59.2 percent of regular expenditure in 1989/90 and 50.18 percent in 1994/95. Regular expenditure on general, excluding the police force, social and economic services, which includes expenditure mainly on government establishment, constituted another 29.5 percent and 41.08 in 1989/90 and 1994/95 respectively. The remaining 11.3 and 8.74 were expended on miscellanceous heads, including pension payments and contingency. This miscellaneous expenditure is also rising very rapidly. However, contrary to expectations, service expenditures are not rising as rapidly as other expenditure heads. Within the broad service grouping growth of general services is still lower. Moreover, expenditure growth needs to be viewed in the light of the need to provide efficient public administration and an essential security infrastructure to properly manage development activities and regulatory services while ensuring stability in the country.

Looking at year-to-year growth, regular expenditure is seen to fluctuate less than development expenditure. Whenever public expenditure was curtailed, much of the curtailment came from development expenditure. In the process, government investment was dampened, and implementation of projects was upset, effecting the efficiency of public expenditure. This happened largely because rigidities are being steadly built into regular expenditure, as a result adjustment varying through public spending entailed a high social cost to the economy, by curtailing development expenditure. Thus, with the growth of regular expenditure, the flexibility or scope of spending policy as a tool for economic management has ben drastically limited.

Economic Classification of the Nepalese Budget

To analyse the share of consumption and investment in public expenditure, information is needed on the current and the capital components of expenditure. The budget of His Majesty Government of Nepal, however, does not make such a distinction. The author, based on the data of differrent year's of Economic Surveys, has estimated broad classes of current and capital expenditures which are presented in Table 6.

Current expenditure, whih includes consumption and current transfers grew annually by 21.9 percent during 1980s and 24.70 percent during first half of 1990s, accounting for 67.8 percent of government

expenditure in 1988/89 and 26.36 percent in 1994/95. Current expenditure has risen faster than capital expenditure, which has risen with an average annual growth rate of only 14.1 percent in 1980s and with only 11.90 percet in first half of 1990s. The balance between the current and capital expenditures is getting out of line. Revenue receipts have not met current expenditures and even borrowing was resorted to finance such expenditure to the tune of 1330.0 million Nepalese rupees in 1988/89, and 1900.0 million Nepalese rupees in 1994/95 (MOF 1995/1996). The government is clearly living beyond its means. The hard choice in such circumstances is to either curtail government services or continue borrowing to sustain government consumption.

Apart from budgetary and inflationary consequences, domestic borrowing is seen to have crowding out effect, particularly when the central bank moves to control liquidity in the economy. In the face of limited foreign exchange earnings and narrow export base, external borrowing too, if allowed to proliferate at the current rate, 7312.2 million Nepalese rupees in the FY 1994/95 (MOF 1996), will invite the familiar debt problems in the long run, notwithstanding that Nepal obtains its borrowing on highly concessional terms. Whether Nepal will be able to mobilise sufficient concessionary assistance in the changed world economic scenario is beside the point. On the contrary, Nepal has not been able to fully utilise even available funds, largely on account of weak development administration and the lack of domestic resources to provide counterpart funds which shows a clear case of limited absorptive capacity.

Table 6
Economic Classification Of Government Expenditure

(In Million Nepalese Rupees)

Fiscal Year	Current Expenditure			Total Current Expenditure	Capital Expenditure		Other including Capital transfers Land Purchae	Total Capital Expenditure	Total Public Expenditure
	Government consumption Including Grants, Subsidies	Interest	Pension		Capital Formation	Expenditure Subscription Interest			
1979/80	1595.92	122.10	17.60	1735.62	11412.20	11.70	216.20	1640.16	3375.78
1980/81	2039.70	129.95	21.80	2191.45	1625.26	11.30	177.94	1814.50	4005.95
1981/82	2530.17	152.90	21.70	2754.77	1940.30	7.9	555.33	2503.53	5258.30
1982/83	3675.46	2131.40	42.40	3031.26	2001.99	3.30	949.50	2954.34	6885.60
1983/84	3698.71	331.10	44.70	4074.51	2309.44	0.00	886.37	3195.81	7270.32
1984/85	4306.56	530.50	59.30	4869.36	2653.92	11.10	685.74	3350.76	8220.12
1985/86	4669.26	676.50	98.10	5443.86	2537.00	9.00	1486.32	4032.32	9476.18
1986/87	6210.88	846.00	119.70	7176.58	3092.00	8.60	866.02	3966.62	1143.20
1987/88	7245.00	1099.00	102.30	8446.30	3663.00	2.60	1667.72	5333.32	13779.62
1988/89	10552.93	1186.60	113.00	11852.53	4111.00	8.90	1492.62	5612.52	17465.05
1989/90	5050.30	1476.9	144.60	6671.80	12990.80	6.70	Include	12997.50	19669.30
1990/91	5692.20	1668.4	190.10	7570.30	15969.50	10.00	d	15979.50	23549.80
1991/92	6988.40	2590.10	326.90	9905.40	16509.80	3.00	in	16512.80	26418.20
1992/93	8302.30	2962.60	219.20	11484.10	19389.60	24.00	Total	14413.60	30897.70
1993/94	8975.50	2966.90	466.80	12409.20	21172.20	16.00		21188.20	33597.40
1994/95	15246.00	3430.10	589.00	19265.10	19789.70	5.20		19794.90	39060.00

Soure : As of the Table 3

What all these imply is that the existing level of government expenditure is not consistent and can not be sustained with the current saving performance of 11 percent of GDP which was 14.7 percent in Fiscal Year 1993/94 but slipped to the 11 percent in 1994/95 (MOF 1996). The barely desirable alternative, therefore, seems to be to cut back government expenditure, or at least restrain its growth. The question then is which expenditures should be cut, or more inportantly, which expenditure cut will have the least adverse impact on the economy.

Reiewing the pattern of expenditures in the 1980s and first half of 1990s, one thing stands out clearly: there has been a steady and perceptible shift in the composition of expenditures towards current transfers and subsidies, interest and grant payments and all have higher growth rates then other heads of expenditure. This growth pattern is some what unexpected in the relatively early stage of economic development, when the provision of capital goods and creation of overhead capital mormally get precedence over other heads.

CONCLUSION

Given the conceptual anomalies which pervade national budgets, it would appear sensible to retain the economic basis of classification between current and development expenditure. The government does make such classifications in her statistical papers. However, when budget is presented both to parliament and for public discussion, the functional classification broken down into a recurrent and development budget which defines the policy intentions of the government that is used. It is thus suggested that the economic classification of expenditure should be annexed to both budgets and that a third budget table should be presented based on functional-cum-economic classfiction of the current and development budgets.

This would, at the domestic level, give parliament and the public a clear picture of the investment component of public expenditure which adds to the productive capacity of the economy and of the recurring component. Such a current budget would then be functionally based on the structure of public expenditure and not on any conditions of expediency designed to access more aid.

It is better that government should do away altogether with the distinction between a current and a development budget and should, as in the case of in most OECD countries, present a single statement of public expenditure with a current and capital component classified under both departmental and functional headings. This would present a much clearer picture of the expenditure priorities of the government and would keep departments sensitive to the need for maintaining an administrative capacity that could sustain their capital expansion and more efficient use of installed capacity, while Ministry of Finance would have a macro-

perspective of the importance of improving the efficiency sunk investment compared with new investments. Such a measure would shift the focus of attention from a projet-centered approach to development to a broader economic perspective which would define the expenditure needs of a sector of the eonomy so as to integrate more efficient capacity use with capital formation.

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